United States Court of Appeals

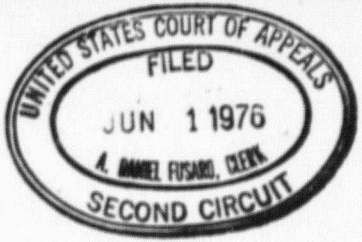
for the Second Circuit



PETITIONER'S BRIEF AND APPENDIX

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT



INTERNATIONAL BUSINESS MACHINES CORPORATION, Petitioner, -against- HON. DAVID N. EDELSTEIN, CHIEF JUDGE, UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK, and UNITED STATES OF AMERICA, Respondents.	No. 76- PETITION FOR EXTRAORDINARY WRIT PURSUANT TO 28 U.S.C. § 1651 AND FED. R. APP. P. 21

PETITIONER'S APPENDIX OF EXHIBITS

PAGINATION AS IN ORIGINAL COPY

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

INTERNATIONAL BUSINESS MACHINES CORPORATION, Petitioner, -against- HON. DAVID N. EDELSTEIN, CHIEF JUDGE, UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK, and UNITED STATES OF AMERICA, Respondents.	No. PETITION FOR EXTRAORDINARY WRIT PURSUANT TO 28 U.S.C. § 1651 AND FED. R. APP. P. 21

INDEX TO EXHIBITS

1. Reports of the Special Masters.

Exhibit A--Final Report of Special Masters After Evidentiary Hearing of October 24 and 26, 1973, dated January 14, 1974.

Exhibit B--Final Report of Special Masters Re (a) Glossary and (b) Revision of IBM Claims ["The Guidelines"] dated July 24, 1974.

2. Opinions and Orders of Chief Judge Edelstein relating to privilege.

Exhibit C--Pretrial Order No. 5, entered September 26, 1972.

Exhibit D--Special Master Order No. 1, entered April 16, 1973.

Exhibit E--Opinion and Order entered June 27, 1974.

Exhibit F--Endorsement entered July 17, 1974.

Exhibit G--Opinion and Order entered October 5, 1974.

Exhibit H--Addendum to Opinion of October 5, 1974, entered October 15, 1974.

Exhibit I--Pretrial Order No. 23, entered May 22, 1975.

Exhibit J--Opinion and Order entered May 14, 1976.

3. Pretrial Conference Transcripts.

Exhibit K--Proceedings before Hon. David N. Edelstein, February 23, 1972, tr. 1-14.

4. Trial Transcripts.

Exhibit L--Trial transcript, July 1, 1975, tr. 3764-3767.

Exhibit M--Trial transcript, September 18, 1975, tr. 4479a-4481.

Exhibit N--Trial transcript, September 22, 1975, tr. 4563-4564.

Exhibit O--Trial transcript, October 1, 1975, tr. 5319-5321.

Exhibit P--Trial transcript, November 17, 1975, tr. 7563-7564.

Exhibit Q--Trial transcript, May 25, 1976, tr. 19309-19316; 19352-19353.

5. Stipulations.

Exhibit R--Stipulation between the parties, dated November 10, 1975, and received as Joint Exhibit No. 2.

6. Selected papers in Xerox Corp. v. SCM Corp.

Exhibit S--Selections from SCM's Appendix, containing Judge Newman's Pretrial Rulings Nos. 17, 19 and 21.

Exhibit T--Slip opinion, Second Circuit,

April 15, 1976.

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

UNITED STATES OF AMERICA, Plaintiff,	:	69 Civ. 200
-against-	:	FINAL REPORT OF SPECIAL MASTERS AFTER EVIDENTIARY HEARING OF OCTOBER 24 AND 26, 1973
INTERNATIONAL BUSINESS MACHINES CORPORATION, Defendant.	:	

INTRODUCTION

The defendant, IBM, has refused to surrender to the plaintiff for purposes of discovery thousands of documents on the ground that these documents are protected either by attorney-client privilege or as work product. The documents were prepared by the so-called Cravath, Swaine & Moore task forces (of which there were four) and by the so-called "Office of Business Practices."

IBM asserts that the various task forces and the Office of Business Practices were established at the request of counsel and consisted of IBM businessmen who were detailed to the task forces in order to educate the attorneys about the computer business, and that all this activity was in anticipation of litigation. The Government, in response, argues that the documents generated by these task forces may have involved lawyers but were created for business purposes, i.e., to aid IBM executives in making business decisions which would enhance IBM's competitive position in the computer business.

A perusal of the documents could support either position since the documents, on their face, could be used

for either business or litigation, or, indeed for both purposes. Accordingly, extraneous evidence was required in order to determine how the task forces were formed, how they functioned, why the documents were prepared, and what use was made of the documents.

Pursuant to Special Master Orders Nos. 1 and 7, the undersigned Special Masters conducted hearings in the United States Courthouse, Foley Square, on October 24 and 26, 1973. Testimony was taken and much documentary evidence was offered. Thereafter, plaintiff and defendant submitted proposed findings of fact and conclusions of law.

Having reviewed all the documentary evidence and testimony, we make the following findings and conclusions:

FINDINGS OF FACT

CRAVATH, SWAINE & MOORE I (CS&M I)

1. The task force known as CS&M I, or the Figueroa Task Force, was established at the request of IBM's counsel in November or December, 1967 and concluded its work in April, 1968.

2. The task force was organized at the request of Burke Marshall (IBM's then Vice President and General Counsel) and George B. Turner (a member of the firm of Cravath, Swaine & Moore).

3. Task force CS&M I was closely directed by Harold F. McGuire, Jr., who was then associated with the firm of Cravath, Swaine & Moore.

4. The primary purpose of the task force was to study the practice of furnishing services and software without separate charge (bundling), an issue which was

surfacing as one of major concern to the Department of Justice and competitors of IBM.

5. The task force was created to review the facts and provide analysis which would enable IBM's attorneys to render legal advice to IBM.

CRAVATH, SWAINE & MOORE II (CS&M II)

6. The task force known as CS&M II, or the Kearns Task Force, was established at the request of IBM's counsel in September, 1968 and concluded its work around November, 1968.

7. The work of CS&M II was directed primarily by Messrs. Turner and McGuire, of the Cravath, Swaine & Moore law firm.

8. While CS&M II studied the bundling problem as did CS&M I, it placed greater emphasis upon the issues of systems engineering services raised by a private anti-trust action brought against IBM by Data Processing Financial and General Corporation ("DPF&G"). It was primarily to defend that action that CS&M II was created.

CRAVATH, SWAINE & MOORE III (CS&M III)

9. CS&M III, also known as the Bullen Task Force, and occasionally known as the Business Practices Task Force, the Unbundling Task Force and the Von Kohorn Task Force, was established at the request of IBM's counsel in December 1968 and concluded its work by approximately June, 1969. The work of CS&M III was guided by counsel from Cravath, Swaine & Moore, principally Mr. G. Oliver Koppell who was then associated with the Cravath firm.

10. The purpose of the task force was to reconsider the bundling problem against the backdrop of a threatened Government suit against IBM and several private antitrust actions.

11. That part of the work generated by CS&M III which IBM agrees was not privileged has already been surrendered to the Government.

CRAVATH, SWAINE & MOORE IV (CS&M IV)

12. CS&M IV, also known as the Service Practices Group, Maintenance or F. E. Task Force, was established at the request of IBM's counsel in approximately June, 1969 and concluded its work early in 1970.

13. The work of CS&M IV was directed by Messrs. Evangelista and McKinney, inside counsel to IBM.

14. The work of CS&M IV concerned maintenance related issues which had arisen in the Government's action as well as in several of the private antitrust actions.

15. That part of the work generated by CS&M IV which IBM agrees was not privileged has already been surrendered to the Government.

OFFICE OF BUSINESS PRACTICES

16. The Office of Business Practices was established by IBM in 1967 to bring together a small group of experienced IBM employees who would educate counsel about the electronic data processing industry.

17. The Office was established at the instance of Burke Marshall (then Vice President and General Counsel to IBM) and George B. Turner (a partner in the Cravath

firm). Harold F. McGuire, Jr. (an associate with the Cravath firm) was assigned to direct and work with this group.

18. Frank J. Cummiskey, an IBM employee, was the first director of the Office and reported directly to Burke Marshall. He was then joined by other employees including Hilary A. Faw (who later became Director of the Office), Otis S. Page, Carl Gamrath, Stuart E. Greenfield, Jerry Specter, William Wakeford, and Joseph Rogers.

19. The sole purpose of the Office was to assist IBM's counsel in connection with the Department of Justice litigation. The members of the Office had no business responsibilities during this time.

20. The offices of the members of the Office of Business Practices were located at Corporate Headquarters in Armonk within the same office as IBM's Legal Department.

21. Except as the content of the document or the file source from which it was produced, as shown by the listings, otherwise indicates, there is no evidence that the reports emanating from the Office of Business Practices were circulated to people other than members of that office and IBM counsel.

22. From February or March, 1967 until late 1970, Mr. Faw was relieved of all business responsibilities in IBM (with two possible but irrelevant exceptions), and was detailed for that three-year period to work with counsel both in the Office of Business Practices and the various CS&M task forces. Mr. Faw was the principal IBM executive coordinating the efforts of counsel and the IBM businessmen.

23. Mr. Faw was advised by Cravath, Swaine & Moore that all the documents prepared by him and by those working for him would be privileged.

CONCLUSIONS OF LAW

I

The four CS&M task forces were created under the guiding hand of counsel to prepare for litigation, either pending or anticipated.

II

The Office of Business Practices was similarly created to prepare for litigation, either pending or anticipated.

III

A. The evidence presented establishes that the work of the four task forces and the Office of Business Practices was primarily related to litigation either pending or anticipated or the obtention of legal advice.

B. The evidence presented establishes that for the purpose of protecting the confidentiality of the documents the personnel of the task forces and of the Office of Business Practices and the documents used and prepared by them were sufficiently segregated from the rest of IBM personnel and their business records. Although oral progress reports were occasionally made to IBM executives not connected with the task forces or the Office of Business Practices, these communications were guarded and were made in the presence of counsel in order to keep the senior echelon of IBM management apprised of legal developments.

C. Documents generated by the four task forces and the Office of Business Practices are therefore privileged either as work product or as communications between attorney and client unless the content of the document establishes that the purpose of the document was other than litigation or the obtaining of legal advice or unless the content of the document or the file source from which it came, as stated in the listings, establishes that the requisite confidentiality has not been maintained.

IV

Even though such a document was not prepared for the present litigation, the document is privileged as work product if it was prepared for a lawsuit involving substantially identical issues.

V

In all cases where such a document went from an IBM employee to an attorney (or his agent), or vice versa, the attorney-client privilege will attach unless the document reflects solely a business judgment (rather than a purpose to obtain legal advice or aid in litigation) and except in those cases where the content of the document or the file source from which obtained, as stated in the listings, establishes that the requisite confidentiality has not been maintained.

VI

A. In those cases where the document went from one IBM employee to another, the document is entitled to protection as work product except insofar as the document

reflects a business judgment. It may also be entitled to the protection of the attorney-client privilege if it was transmitted through the line of corporate communication as either legal advice received or data prepared as a basis for the rendition of legal advice.

B. A document which is not protected by the attorney-client privilege but which is privileged as work product may nevertheless be reached if the Government can demonstrate to the Masters that it "has substantial need of the materials" and that it "is unable without undue hardship to obtain the substantial equivalent of the materials by other means." F. R. Civ. P. 26(b)(3). The Government will be afforded opportunity for such a hearing by the Masters in any decision holding particular documents to be privileged as work product.

VIII

In making recommendatons to the Court regarding the validity of claims of privilege asserted with respect to particular documents, a Master shall recommend that a document be found "wholly privileged" or "wholly non-privileged" or "privileged in part" and as to any document in the last category shall (a) indicate by enclosing within red ink brackets marked upon the document those portions of the document which he recommends be found privileged and be excised from the document before disclosure of it, and (b) shall file all such "privileged in part" documents under seal with the Clerk of the Court at the time of filing of his report on such documents.

RECOMMENDATION

We recommend that the Court accept the findings and conclusions above set forth and adopt this report. The Masters' work of passing upon the particular documents will proceed promptly thereafter.

Dated: New York, New York
January 14, 1974

Respectfully submitted,

/s/
Bernard S. Meyer
Special Master

/s/
Joseph M. McLaughlin
Special Master

Index No. 69 Civ. 200

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

UNITED STATES OF AMERICA,

Plaintiff,

-against-

INTERNATIONAL BUSINESS
MACHINES CORPORATION,

Defendant.

FINAL REPORT OF SPECIAL MASTERS AFTER EVIDENTIARY HEARING OF OCTOBER 24 AND 26, 1973

Joseph M. McLaughlin
Special Master
140 West 62nd Street
New York, New York 10023
(212) 956-5044

Bernard S. Meyer
Special Master
551 Fifth Avenue
New York, New York 10017
(212) 682-0546

ORIGINAL

74-1156

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

UNITED STATES OF AMERICA,

Plaintiff,

-against-

INTERNATIONAL BUSINESS MACHINES CORPORATION,

Defendant.

69 Civ. 200 (DNE)

FINAL REPORT OF SPECIAL MASTERS RE (a) GLOSSARY AND (b) REVISION OF IBM CLAIMS

U.S. DISTRICT COURT
FILED
AUG 6 1974
S. D. OF N. Y.

INTRODUCTION

The experience of the Masters in reading documents indicates that a substantial number fall in categories listed below under "Attorney-Client" which, in the opinion of the Masters, are not privileged. Moreover, Chief Judge Edelstein's decision of June 27, 1974, holding that CSG III and IV and OGP were business rather than legal groups, imposes on IBM the burden of proving specific claims of privilege as to individual documents generated by said groups. It also disposes of all work-product claims except those relating to documents prepared for the instant case.

Moreover, there are in the various documents and listings names of individuals and groups and abbreviations which are not otherwise identified or explained.

RECOMMENDATION

We, therefore, recommend to the Court that

1. IBM furnish to each of us (a) a directory of personnel, other than attorneys, referred to in the documents or a general directory from which such persons can be identified, and (b) a glossary of groups and abbreviations referred

to in the documents and not otherwise identified, and that

2. IBM review the documents in light of the Court's opinion of June 27, 1974 and the categories of non privileged documents set forth below. Documents which survive such review will be resubmitted to the Masters for rulings; documents which do not, are to be furnished to plaintiff without further order of the Master to whom the document has been assigned except that as to documents with respect to which IBM wishes to appeal to the District Court with respect to its claim of privilege, IBM may present to the Master a list of such documents setting forth (a) the document number, (b) a statement indicating which category(ies) below the document falls within, and (c) a statement as to why the document is deemed privileged. The Master will then issue a final report, from which appeal may be taken.

The categories are as follows:

Attorney-Client

Communications will not be deemed privileged if they come within any one of the following categories:

1. Where subject of communication is company policy, including:

a. Discussions of pricing, marketing and budgeting.

b. Communications relating to administrative forms, catalogs, letters, customer letters, branch manager letters, industry news letters, blue letters, press releases, branch office manuals, sales manuals, business conduct booklets, hiring practices, instruction letters, regional manager letters, executive reports, advisory staff memos, corporate instructions, announcements, organization letters, proposed legislation and standard contracts, as well as all proposed

revisions, drafts, interpretations and applications thereof.

c. Announcements or requests that policy areas be studied.

d. Discussions of the apportionment of responsibility within the IDM administration.

e. Communications concerning settlement and contract negotiations.

2. Where a document is not intended primarily for the purpose of securing legal advice. Zenith Radio Corp. v. Radio Corp. of America, 121 F. Supp. 792, 794 (D. Del. 1954). See also, U.S. v. U.S. Shoe Corp., 89 F. Supp. 357, 360; Colton v. U.S., 306 F.2d 633, 638 (2d Cir. 1962); NLRB v. Harvey, 349 F.2d 900, 905-906 (4th Cir. 1965). This category includes all documents requesting simultaneous review of a given problem or practice by non-legal as well as legal personnel, cf., U.S. v. Aluminum Co. of America, 193 F. Supp. 251, 253 (N.D.N.Y. 1960). A lawyer's response to any request not intended primarily for the purpose of receiving legal advice will not be deemed confidential or privileged even as to that specifically legal portion of the response since the privilege only applies to a lawyer's communication which would have the effect of revealing a confidential communication from the client. U.S. v. Silverman, 430 F.2d 106, 122 (2nd Cir. 1970).

3. Where a reading of the document in question does not reveal a communication of confidential information. U.S. v. U.S. Machinery Corp., supra at 360 (privilege does not encompass reports or comments "on information coming from persons outside the corporation or from public documents, or [which] are summaries of conferences held with or in the presence of outsiders.") See also Colton v. U.S., supra at 639. This category includes:

a. A communication based upon complaints, proposals, requests or other communications from third parties or discussions with third parties.

b. Reports regarding activities of third parties or discussions with third parties.

c. Requests for specific legal action, such as contract drafting or research, where it is not evident that the request discloses confidential information.

d. Requests for legal advice made on the basis of information contained in records and other material generated for predominantly business purposes.

e. Legal opinions which do not reveal a confidential communication from the client to the attorney, including discussions of legislation, judicial decisions, status reports of activities by lawyers or non-lawyers, lawyer "high light reports", reports on complaint resolutions, financial damage assessments and letter 112 status reports (e.g., Beitzel, AA 84(4)).

4. Where a communication is not intended to remain confidential, including a communication from or to an attorney that is intended for transmission to third parties without legal approval.

5. As to each document resubmitted by IBM in which all of the originator(s), addressee(s) and copyee(s) are not within the IBM control group list submitted by the Government, IBM shall submit one or more affidavits of appropriate IBM official(s) setting forth the factual basis for IBM's claims that the persons not within the Government's list are within the control group.

Work-Product

All documents which do not disclose that they were prepared for use in this litigation will not be privileged as work-product.

Dated: New York, New York
July 24, 1974

Jesse Climenko

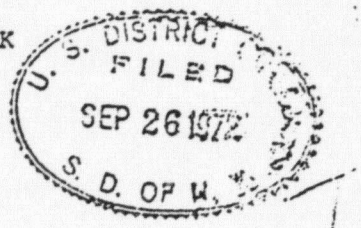
Joseph M. McLaughlin

Bernard S. Meyer

Special Masters

UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF NEW YORK



UNITED STATES OF AMERICA, Plaintiff,	)	
v.	)	Civil Action
INTERNATIONAL BUSINESS MACHINES CORPORATION, Defendant.	)	69 Civil 200

PRETRIAL ORDER NO. 5

WHEREAS defendant, International Business Machines Corporation (IBM), in furnishing to plaintiff, United States of America, microfilm copies of documents in the course of pretrial proceedings in the above-captioned case, excised from the microfilm prior to delivering it to plaintiff copies of documents reproduced on said microfilm which constituted or contained allegedly privileged material, as to which excised documents IBM made the claim that such documents had been delivered to a third party, Control Data Corporation, through inadvertence on its part; and

WHEREAS plaintiff thereafter filed a motion in this Court dated April 7, 1972, calling for the production of the materials thus withheld and excised by IBM, plaintiff's ground being that the production of said documents to Control Data Corporation constitutes a waiver of all claims of privilege by IBM as to said documents;

The parties having been heard on IBM's claim in response to plaintiff's motion that IBM's delivery of said documents to Control Data Corporation constitutes an "inadvertent waiver" and upon plaintiff's claim that this Court should not apply

any so-called doctrine of inadvertent waiver to said documents, and the Court being thus duly advised;

IT IS ORDERED that IBM immediately deliver to plaintiff, in the form provided to Control Data Corporation, a copy of each document withheld and excised by it from the said microfilm, all such documents purportedly being identified and described by Charles M. Waygood, attorney for defendant, in a letter addressed to plaintiff's counsel, dated April 4, 1972, a copy of said letter being attached to and made a part of this order.

Dated at New York, New York, this 26 day of September, 1972.

DAVID N. EDELSTEIN
Chief Judge

Consented to as to form:

Attorney for defendant,
International Business
Machines Corporation

AVENUE, NEW YORK, N.Y. 10017

212 688-0400

PAUL J. CRAVATH
JOHN LOGAN O'DONNELL
ROBERT F. MCCRACKEN
LEO P. NORBOLOTI, JR.
WM. SONDERICKER

ERNEST H. LOHLA
CHARLES M. WAYGOOD
JAMES E. TOLAN
ROGER MULVIHILL
WIPT P. MANAS, III

JOHN F. WALSH, JR.
ALEXANDER ONDERDONK
LEONARD J. CONNOLLY
EDWARD A. VROOMAN
THANE BENEDICT III
CHARLES A. BONNES
WALTER M. BEEBE
DONAL P. BARRETT
CHARLES P. MCCAGHEY
J. STEPHEN SHEILS
JANE GILLESPIE
FRANCIS P. DUNNE
MICHAEL A. FEIRSTEIN

PAUL D. DICIOR
CHARLES G. O'DONOHUE, JR.
JUDITH S. KAYE
ROBERT L. FRENCH
ROGER M. KISSAM
LEONARD P. MORAN
PAUL D. FRECHAN
ROBERT J. NETTUNE
ROBERT W. BOYD, JR.
RICHARD F. TOUHANS
MARIJO M. MURPHY
LEONARD SHARENOW
STEPHEN A. HAGIDA

RICHARD E. OLWINE
1913-1954

JOHN E. CONNELLY, JR.
EDWARD F. JOHNSON
COUNSEL

CABLE ADDRESS: OLDCHCH

Attachments referred to in letter of 4-6-72 RMC

April 4, 1972

U.S. v. IBM

Dear Ray:

The enclosed are the lists of documents excised from the microfilm previously shipped to the Department of Justice. The lists cover the 169 reels of microfilm shipped to the Government in June, 1971 and the 22 reels of microfilm delivered to you in Court on March 16 with my letter of March 15, 1972.

Cordially yours,

Charles M. Waygood

Raymond Carlson, Esq.,
Antitrust Division,
Department of Justice,
Washington, D. C. 20530.

arw

Enclosures

Copies for: Steven J. Olson, Esq., (Oppenheimer firm) w/ encs.
Thomas D. Barr, Esq., (Crayath) w/o encs.

66-235-38
DEP
26 APR 5 1972
ANTITRUST

U.S. DISTRICT COURT
FILED
APR 18 1973
S. D. OF N.Y.

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

- -

UNITED STATES OF AMERICA,

Plaintiff,

-against-

INTERNATIONAL BUSINESS MACHINES CORPORATION,

Defendant.

- -

SPECIAL MASTER
ORDER No.1

69 Civ. 200

EDELSTEIN, Ch.J.

WHEREAS discovery in the above-entitled action has and will continue to involve claims of privilege with regard to a substantial number of documents; and

WHEREAS both parties have suggested that the court appoint special masters to assist the court; it is hereby

ORDERED that:

FIRST: Pursuant to Rule 53 of the Federal Rules of Civil Procedure, the court hereby appoints A. Leo Levin, Joseph M. McLaughlin, and Bernard S. Meyer to be special masters for the purpose of conducting hearings and making recommendations to the court regarding the validity of claims of privilege asserted by the parties with respect to documents discovered in the course of pretrial proceedings in this case;

SECOND: All claims of privilege are to be made to the court, together with a list of all documents as to which such claim is made, a brief description of their contents and a statement of the nature of the

CCH CP 27-8

privilege claimed. For each document or class of documents with regard to which a party asserts a claim of privilege the court may designate one of the special masters who shall have responsibility for making recommendations to the court as to the validity of such claims. The court may periodically alter these designations.

THIRD: All claims of privilege raised by the United States on the grounds of national security are to be decided by the court and are not to be considered by any special master;

FOURTH: Subject to further Order of the court, the masters shall be governed by the following guidelines:

1. Upon the designation of a master to review claims of privilege with regard to any class of documents, the master shall schedule a meeting with counsel at which each side will present in writing its plans for the priority to be assigned to each document or group of documents, before that master. In the absence of agreement between the parties, the master shall make a ruling as to the grouping and priority of documents including, in his discretion, classification of documents by type of privilege, similarity of content, chronology, or otherwise. The parties and the masters, in determining these priorities, are to seek a method which will lead to the

most expeditious handling of all claims of privilege. It is expected that these procedures and priorities will differ with regard to the claims of privilege before each master.

2. In making his recommendations as to each group of documents considered, each master shall, if possible, treat first those documents which are in his view obviously not privileged; next, those which are in his view obviously privileged; and last, those documents with regard to which serious legal and factual questions are raised.

3. In all instances not governed by these guidelines, or further order of the court, including the conduct of hearings, production of documentary materials and attendance of witnesses, the masters shall be guided by Rule 53, and other applicable provisions of the Federal Rules of Civil Procedure.

4. After considering the validity of any claim of privilege, each master shall forward to the court his recommendations together with the reasons therefor.

FIFTH: The special masters' fees and necessary expenses shall be at regular hourly rates not less than those customarily charged for matters of this

importance and complexity in this jurisdiction. The parties shall share equally in the payment of those fees and expenses and such fees and expenses shall ultimately be taxed as costs in such manner as the court shall deem appropriate at the conclusion of this case; and

SIXTH: Nothing in this order shall be construed to limit either the masters in seeking guidance from the court, or the court in ordering that any matter pending before a master be referred immediately to the court for its consideration.

DAVID N. EDELSTEIN, Ch.J.
United States District Court,
Southern District of New York.

Dated: New York, N.Y.
April 16, 1973

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

6/27/74

UNITED STATES OF AMERICA,

Plaintiff,

-v-

INTERNATIONAL BUSINESS MACHINES CORPORATION,

Defendant.

---

69 Civ. 200 (DNE)

OPINION

EDELSTEIN, Chief Judge

I. INTRODUCTION

On April 16, 1973, this court entered an order, designated Special Master Order No. 1, appointing special masters pursuant to Fed.R.Civ.P. 53 for the purpose of making recommendations to the court regarding the validity of claims of privilege asserted by the parties. Defendant International Business Machines Corporation (IBM) withheld from production to plaintiff certain documents generated by the so-called Cravath, Swaine & Moore Task Forces and the so-called Office of Business Practices. IBM asserts that certain documents generated by these groups are either privileged under the attorney-client privilege or are entitled to the special immunity accorded to attorney work-product by Fed.R.Civ.P. 26(b)(3). It contends that the task forces and Office of Business Practices were created at the request of counsel for the purpose of educating counsel regarding the electronic data processing

industry DP) and to assist counsel in the investigation and defense of any litigation which might emanate from the Department of Justice's investigation in the late nineteen-sixties of the EDP industry in general, and of IBM specifically. IBM alleges that the activities of the various task forces and Office of Business Practices was in anticipation or defense of litigation. The Government, on the other hand, contends that although lawyers may have been involved in the studies and activities of these task forces, the documents generated by these groups were created to assist IBM executives in making business decisions.

In order to make recommendations to the court with respect to these claims of privilege, the masters held evidentiary hearings.

Special Master McLaughlin submitted a memorandum to the court raising the question of the applicability of the Publicity in Taking Evidence Act, 15 U.S.C. § 30 (1970), to evidentiary hearings before the special masters. By order entered on October 20, 1972, which was designated Special Master Order No. 7, the court expressly ruled that the Publicity in Taking Evidence Act was applicable to all evidentiary hearings before the special masters for determining asserted claims of privilege. This order recognized, however, that certain allegedly privileged information may be introduced into evidence at these hearings. Accordingly, Special Master Order No. 7 authorized the special

masters to issue protective relief to preserve the confidentiality of allegedly privileged documents and testimony offered into evidence at the hearings pending culmination of the proceedings and rulings on the claims of privilege.

By letter dated September 11, 1973, addressed to the court, Special Masters Meyer and McLaughlin set forth the procedures established for conducting the hearings with respect to the Cravath, Swaine & Moore Task Forces and the Office of Business Practices. These procedures were derived at a meeting attended by the masters and counsel for both parties. In relevant part these procedures provided as follows:

> 1. Joint hearings by both Special Masters will be held for the purpose of receiving evidence with respect to various task forces constituted by IBM . . . .
>
> 2. The testimony of IBM's witnesses will be presented in the form of affidavits which are to be prepared and submitted to the Government, to the Court and to the Masters not later than October 1, 1973.
>
> 3. The Government will then have until October 15th to review the affidavits and advise IBM and the Masters which of the IBM witnesses the Government desires to have produced for cross-examination and what additional witnesses will be produced by the Government. . . .

On October 1, 1973, in conformance with the procedures outlined above, defendant submitted the affidavits of five attorneys [1/] to establish its claims with respect to the Cravath, Swaine & Moore Task Forces and the Office of Business Practices. The evidentiary hearings were conducted on October 24 and 26, 1973.

At the outset of hearing Master Meyer stated:

> I suppose the logical way to begin this, since we adopted the procedure of having affidavits submitted by IBM, is to have those affidavits formally offered and marked, and then let the Government proceed with its rebuttal. 2/

After much debate over (1) the authenticity of certain documents that the Government intended to introduce into evidence and (2) the admissibility of portions of the IBM affidavits, the hearing proceeded. Although plaintiff did not call any of the IBM affiants for cross-examination, it did call to testify four former employees and one current employee of IBM having various connections with the projects that were the subject of the hearings. 3/ Additionally, the Government entered into evidence portions of the depositions of five other IBM employees. 4/ Moreover, numerous documents offered by plaintiff were received in evidence both in connection with the testimony of the various witnesses and independently of any testimony. These documents had been produced to plaintiff from IBM.

In addition to the previously mentioned affidavits of present and former IBM attorneys, defendant introduced excerpts from three of the five depositions of IBM employees that the Government, in part, entered into evidence. 5/ IBM also submitted ninety-five (95) documents from the files of Hilary A. Faw, Jr., the Assistant Treasurer of IBM and one time Director of the Office of Business Practices, which were withheld from production

to plaintiff as privileged. Mr. Faw was one of the witnesses called by the Government. Pursuant to Special Master Order No. 7 these documents were submitted to the masters for their consideration in camera. By procedure adopted at the close of the hearings the Special Masters permitted defendant to submit these documents with the proviso that if any of these documents were utilized in reaching their findings of fact and conclusions of law, they would specifically state which document or documents, if any, were used and would attempt to provide redacted copies to the Government. Tr. 317-25. By letter dated December 12, 1973 to James I. Serota, an attorney with the Antitrust Division of the Department of Justice, Special Master Meyer unequivocally stated that the Faw documents were not considered by the special masters in reaching their findings of fact and conclusions of law.

On December 12, 1973 the Special Masters Preliminary Report was filed; it contained a brief introduction, findings of fact and conclusions of law. Pursuant to Fed.R.Civ.P. 53(e)(5) the masters invited the parties to make written comments addressed to the preliminary report.

Both parties responded to the preliminary report. After considering the suggestions tendered, the masters made some slight modifications of the preliminary report and on January 14, 1974 rendered their final report.

Thereafter, pursuant to Fed.R.Civ.P. 53(e)(2), both parties

served and filed written objections to certain of the findings of fact and conclusions of law and moved before this court for orders setting aside, modifying and amending the Final Report of the Special Masters. The specific objections will be discussed in parts III (Government) and IV (IBM) of this opinion.

II. STANDARDS OF REVIEW

The power of a special master is completely dependent upon the order of reference. Fed.R.Civ.P. 53(c) in relevant part provides that "[t]he order of reference to the master may direct him to report only upon particular issues or to do or perform particular acts . . . ." Special Master Order No. 1 states that the special masters were appointed in this case "for the purpose of conducting hearings and making recommendations to the court regarding the validity of claims of privilege asserted by the parties with respect to documents . . . ." (emphasis added). Accordingly, the Court views the final report of the masters including their findings of fact and conclusions of law as recommendations regarding the validity of claims of privilege asserted by the parties. Although these recommendations may be accepted or rejected by the Court as appropriate or inappropriate, the Court will deal with the suggested findings as though they had been specifically required by Special Master Order No. 1 and subject to the standard of review contained in Fed.R.Civ.P. 53(e)(2), which, in pertinent part, provides: "In an action to be tried without a jury the court shall accept the master's findings of fact unless clearly erroneous." The Supreme Court has defined

"clearly erroneous" as follows: "A finding is 'clearly erroneous' when although there is evidence to support it, the reviewing court on the entire evidence is left with the definite and firm conviction that a mistake has been commited." 6/

It is firmly established that a "Master's conclusions of law have no effect except to the extent that they are correct propositions of law." 5A J. MOORE, FEDERAL PRACTICE ¶ 53.12 [5] (2d ed. 1974) [hereinafter cited as 5A J. MOORE]. For the most part the conclusions of law attacked by the parties in the pending motions are not statements of law per se, but rather are mixed questions of fact and law. In regard to such a finding Professor Moore states that "an ultimate finding by a master that involves a mixed question of law and fact is subject to a scrutinizing and careful review." 5A J. MOORE ¶ 53.12 [5] & n. 3.

Neither the Government nor IBM would dispute that the utilization of the "clearly erroneous" standard of Rule 53(e)(2) is desirable in this court's review of the special masters' findings of fact. What they do disagree about is the applicabilit of the Gypsum rule under these circumstances. This rule takes its name from the case in which it was articulated, United States v. United States Gypsum Co., 333 U.S. 364 (1947). Simply stated the rule instructs that when oral testimony is contradicted by contemporaneous documents the trier of fact should give little

weight to the oral testimony. Id. at 395-96 [7/]

Plaintiff contends that under the circumstances in which the hearings before the special masters were conducted, the masters "were required to resolve evidentiary conflicts between IBM contemporaneous documents on the one hand and the assertions of IBM lawyers and businessmen on the other in favor of the conclusion dictated by the contemporaneous documents." Not to do so is asserted to be clear error under Gypsum.

Defendant, on the other hand, points to United States v. Yellow Cab Co., 338 U.S. 338 (1949) "as stating a companion rule to the so-called 'Gypsum rule.'" It contends that the Yellow Cab case would permit the masters to review all the evidence and come to their conclusions based on any permissible view of the weight of the evidence.

A reading of the two cases clearly reveals that the decisions of the Supreme Court on the issue of whether the courts below had committed clear error was resolved on the basis of altogether different fact patterns. In Gypsum contemporaneous documents were contradicted by subsequent oral testimony. In this situation the Court mandated that the trier of fact should give little weight to the oral testimony.

Yellow Cab presented an entirely different situation. It is true, as defendant suggests, that the Supreme Court stated that the Government in Yellow Cab "relied in large part on

inferences from its 485 exhibits . . . and that defendants relied heavily on oral testimony to contradict those inferences." 338 U.S. at 340. (emphasis added). But this brief statement is a slim reed on which to predicate a companion rule to the pronouncement in Gypsum. If the Court was articulating a companion rule to Gypsum, it seems curious indeed that Gypsum was not even cited in Yellow Cab let alone discussed or analyzed.

The significant factual findings in Yellow Cab concerned matters that the Court described as

> imponderables, such as the intent of parties to certain 1929 business transactions, whether corporate officers were then acting in personal or official capacities, what was the design and purpose and intent of those who carried out twenty-year-old transactions, and whether they had legitimate business motives or were intending to restrain trade of their competitors in car manufacture, such as General Motors, Ford, Chrysler and Packard.

338 U.S. at 340. In such circumstances the ability of the trial court to observe the demeanor of witnesses was deemed highly significant. The Court articulated this position as follows:

> Findings as to the design, motive and intent with which men act depend peculiarly upon the credit given to witnesses by those who see and hear them. If defendants' witnesses spoke the truth, the findings are admittedly justified. The trial court listened to and observed the officers who had made the records from which the Government would draw an inference of guilt and concluded that they bear a different meaning from that for which the Government contends.

338 U.S. at 341.

Accordingly, it is the court's view that Gypsum and Yellow Cab stand for different propositions and do not state companion rules.

III. GOVERNMENT OBJECTIONS

The Government objected to finding 9, which states:

> 9. CS&M [Cravath, Swaine & Moore] III, also known as the Bullen Task Force, and occasionally known as the Business Practices Task Force, the Unbundling Task Force and the Von Kohorn Task Force, was established at the request of IBM's counsel in December 1968 and concluded its work by approximately June, 1969. The work of CS&M III was guided by counsel from Cravath, Swaine & Moore, principally Mr. G. Oliver Koppell who was then associated with the Cravath firm.

Plaintiff contends that documents admitted into evidence contradict finding 9 in at least three respects. First, CS&M III was not the same group as the Bullen Task Force. Secondly, CS&M III was not established at the request of counsel and, lastly, CS&M III was not directed by Cravath, Swaine & Moore, IBM's outside counsel.

The Government asserts that the group known as the Bullen Task Force was organized by Richard H. Bullen, then a senior IBM officer, at the direction of Thomas J. Watson, Jr., then the chief executive officer of IBM. Additionally, plaintiff contends that the activities of this group were directed

by Bullen rather than counsel. In support of this contention plaintiff points to its exhibits numbered 8-14. [8] PX-8 is a memorandum from T. J. Watson, Jr. to Bullen; it indicates that carbon copies were sent to T. V. Learson, A. K. Watson and A. L. Williams, then all senior IBM officers. The document, which is dated November 7, 1968, is reproduced in the margin. [9] In pertinent part, it provides that "effective immediately" Bullen was to become Special Assistant reporting to Watson "on the matter of business practices." Additionally, the memo indicates that Bullen is to keep management informed and that the time for the assignment of this project was estimated to be 120 days.

PX-9 is a portion of a memorandum from D. P. Phypers, an IBM official, to T. J. Watson, Jr., T. V. Learson, A. K. Watson and A. L. Williams. [10] This document, dated December 18, 1968, states that "Bullen will review with you the present status of the work he has underway" in connection with "Business Practices." In another memorandum (PX-10), dated January 13, 1969, from Phypers to the four senior IBM officials who were the addressees of PX-9, it is stated that A. K. Watson will chair the January 14 MRC [11] meeting. One of the topics for discussion was listed as follows:

(1) Business Practices -- This will be the first in the series of discussions with the Bullen Task Force aimed at reaching conceptual agreement on our course of action in the unbundling [11] area. (footnote and emphasis added).

The next document relied on by plaintiff is PX-11, which is a memo from Bullen to F. T. Cary, another senior IBM official and currently IBM's chief executive officer. This document sets forth a number of planned meetings between Bullen's task force and various IBM management committees. In it Bullen concludes that it will be necessary to abandon some of these planned meetings in order to complete the task force's scheduled work.

PX-12, 13 and 14 are communications from Bullen to various members of his task force and to other IBM officials not directly connected with the task force in which he informed them that some of these planned meetings with management were being cancelled.

Collectively PX-8 through 14 establish that Bullen headed a task force organized in November, 1968, [12] which was formally known as the "Business Practices Strategic Task Force," and informally as the Bullen Task Force. None of these documents indicate that this task force was also called CSGM III. It is also clear that unbundling was the subject matter with which this group was concerned. Furthermore, it should be noted that none of these documents mention counsel

or suggest any legal involvement of the Bullen task force.

The Government offered another group of documents, marked as exhibits and entered into evidence before the masters, in support of the following contentions: (a) the Bullen Task Force and CS&M III were distinct entities; (b) that a large task force was established by IBM in February, 1969 (about two or three months after the original Bullen group began its work); (c) it was this larger group that became known within IBM as CS&M III; (d) this larger group did the detail work for the smaller Bullen group; (e) the larger group (CS&M III) was linked to the Bullen task force by three IBM businessmen (Beitzel, Forese, and Figueroa); (f) these three men were known as the troika and (g) they guided the daily activity of CS&M III.

PX-48 is an excerpt from the deposition of Howard G. Figueroa, an IBM official who was a member of the Bullen Task Force. It indicates that the group known as the Bullen Task Force was started in November or December 1968, that it was a successor to the Kearns Task Force (CS&M II), and that originally it had approximately a dozen members. 14/ Additionally, Figueroa's deposition reveals that another task force was created in February, 1969 "[t]o do the detail work that had been generally outlined by the smaller Bullen group." Furthermore, it states that this additional task force initially had about fifteen

members but toward the end of its work it had approximately 100 members. 15/

In other excerpts from Figueroa's deposition it is stated that the larger additional task force was referred to as CS&M III (PX-53B), that the linkage between the smaller Bullen group and the larger CS&M III group was provided by three IBM businessmen--i.e., Beitzel, Forese and Figueroa (PX-49)--and that these three men "had the responsibility to direct on a day-to-day basis the work of the larger group." (PX-49). It was also established that Beitzel, Forese and Figueroa were collectively known as the "Troika" (PX-54A). Thus, the excerpts from Figueroa's deposition support most of the Government contentions stated above.

In further support of its contention that CS&M III and the Bullen Task Force were separate entities, the Government offered PX-54. This document is a memorandum from Forese to nine other IBM employees 16/ with an indication that carbon copies were sent to Beitzel and Figueroa. Stamped in the upper-left-hand corner of this document is the legend "CS&M STUDY III." Immediately below this the words "Not to be reproduced" are printed in smaller type. In the upper-right-hand corner is the date, February 18, 1969, and above that the following is typed: "DPG HQ Harrison." 17/ Attached to this memorandum is a list of dates when reports on various subjects

would be available from two work groups. One group is labelled Bullen and the other is designated "Troika." From Figueroa's testimony it was established that "Troika" referred to Beitzel, Forese and Figueroa in their capacity as directors of CS&M III. Accordingly, it is apparent that the label "Bullen" in the attachment to PX-54 refers to the dozen or so members of the smaller original group and the term "Troika" refers to the larger task force which Figueroa stated was called CS&M III.

Plaintiff concludes that the documents discussed above "establish the existence of two distinct groups" (emphasis added). The Government is correct in this assertion. Nevertheless, the exhibits also suggest that the two groups worked on substantially the same subject matters. It should also be observed that none of these documents reveal any direction by IBM's outside counsel, Cravath, Swaine & Moore. Additionally, none of the documents support the masters' finding that CS&M III was created at the request of counsel.

The major evidence offered in support of finding 9 is contained in the affidavits of IBM counsel. 18/

Before exploring this evidence it will be useful to set forth defendant's view as to why the task forces were established and how they operated. This background information is found in ¶ 7 of the Turner affidavit. In relevant part it states:

> [F]rom time to time I advised IBM to establish small groups of knowledgeable

time, the provision of assistance to counsel. My requests led to the formation of several task forces whose work varied over time and consisted, among other things, of making a great number of analyses specifically outlined by me responsive to various issues and questions involved in the investigation by the Department of Justice and threatened and, subsequently, actual litigation in order to assist other counsel and me in advising the corporation. Those groups in general were responsible to counsel for developing and analyzing facts and issues within guidelines established by counsel, in testing the validity of various contentions and legal theories, and in proposing and evaluating various courses of action relevant to the Department and third parties. They worked continuously with lawyers from my firm and from IBM, as set forth in greater detail below, and during their active periods I personally spent the majority of my time directing their efforts.

With respect to finding 9, three of the affidavits state that CS&M III was established by counsel in December, 1968:

(1) Turner affidavit ¶ 13 in relevant part states:

> [O]n December 6, 1968, IBM announced publicly for the first time that it was studying the traditional industry practice of furnishing services and software without charge. That announcement was made at the commencement of work by a third task force, established in December, 1968, known as CS&M III. It was headed by a senior IBM Vice President, R. H. Bullen, and was sometimes referred to as the Bullen task force, the Business Practices task force or the Von Kohorn task force, the latter because it worked and met in the Von Kohorn building in Harrison, New York. I had an office in that building where I spent the majority of my time during the active phase of the task force and attended most of the meetings of the task force. I also assigned an associate of my firm,

G. Oliver Koppell, to work with and direct the task force efforts on a day-to-day basis. IBM's Assistant General Counsel, C. B. (Chet) McLaughlin, assisted by a staff attorney, Robert Townsend, and other counsel also attended most of the meetings of the group. The progress and work of the group was continuously reviewed and directed by Burke Marshall, Nicholas deB. Katzenbach, the then new General Counsel of IBM, and me.

(2) Marshall affidavit ¶ 9:

Again as set forth in the affidavit of George B. Turner, it became necessary to establish a third task force, known as CS&M III, in December, 1968. As was the case with its predecessors, it was formed at my specific instance and for the sole purpose of assisting counsel.

(3) Koppell affidavit ¶ 4:

In late 1968, at the request of Mr. Turner, a task force was established to assist counsel in a review of IBM's business and pricing practices and to provide the basis for legal advice to the client. The task force was headed by IBM Senior Vice President, R. H. Bullen and was referred to as CS&M III, as well as the Bullen task force or the Business Practices task force. I was assigned by Mr. Turner to work with the task force and to direct its efforts on a day-to-day basis in order to guide the group in our analyses and evaluations of past and proposed practices in light of the requirements of law.

A fourth affidavit states that CS&M III was created at the request of counsel but does not fix a date for its creation.

(4) Katzenbach affidavit ¶ 6:

> One of the ongoing problems concerned the traditional industry practice of furnishing services and software without separate charge, commonly called bundling. At that time there was a substantial effort under way by counsel to complete a thorough review and analysis of that practice and whether and how it might be changed. Counsel was assisted by a select group of IBM employees headed by a senior Vice President, Richard H. Bullen. The effort, initiated by George Turner of Cravath, Swaine & Moore, and my predecessor, was known as CS&M III, the unbundling task force and various other names; it was under the direct supervision of Mr. Turner, his associate, Mr. Koppell, IBM's Assistant General Counsel, C. B. McLaughlin, and several staff attorneys. The work of the group was reviewed frequently by Mr. Marshall (who had retained some legal responsibilities) and me and performed well its function of providing the necessary foundation upon which we and Cravath, Swaine & Moore could advise the Corporation on this important matter.

At first blush the excerpted portions of these affidavits seem to be consistent. Under scrutiny, however, certain ambiguities and inconsistencies become evident. First, with respect to CS&M I & II, Turner clearly stated that he specifically requested that these task forces be established. 19/ It seems odd indeed that Mr. Turner did not use the same or similar language with respect to CS&M III. Moreover, this failure to state that he specifically requested the creation of CS&M III is inconsistent with statements contained in the affidavits of Messrs. Koppell and Katzenbach. Koppell stated that the task

force referred to as CS&M III was established "[i]n late 1968, at the request of Mr. Turner. . . ." The Katzenbach affidavit states that CS&M III was "initiated by George Turner of Cravath, Swaine & Moore, and my predecessor." 20/ Additionally, the Marshall affidavit asserts that CS&M III, "[a]s was the case with its predecessors [CS&M I and II], ... was formed at my specific instance." Although it might be suggested that these inconsistencies are trivial, they are nevertheless important in the context of the instant controversy. Defendant was permitted to establish a prima facie case with these affidavits regarding the status to be accorded to the CS&M task forces and the Office of Business Practices (OBP). 21/ Consequently, it must be concluded that the affidavits, which were prepared in contemplation of the hearing, were prepared diligently and with great care.

In general, however, the affidavits are the predicate for finding 9. Indeed, it seems fair to state that finding 9 was gleaned from paragraph 13 of the Turner affidavit.

Additional support for finding 9 was offered by the testimony given at the hearings before the masters. Richard H. Bullen testified that his task force was organized at the request of counsel (Tr. 164 L. 9-24; Tr. 177 L. 8-9), that it was referred to as CS&M III (Tr. 157 L. 22-24; Tr. 163 L. 17-22), that it was also referred to as the Von Kohorn Task Force (Tr. 163 L. 23 to Tr. 164 L. 2), that it performed work

requested by counsel (Tr. 153 L. 6-10), and that "for the most part" the members of CS&M III "were ... not involved in the daily work of running the IBM company." (Tr. 169 L. 6-15).

Hilary A. Faw, Jr. testified that CS&M III began in December 1968, that it was headed by Bullen and that it was sometimes called the Bullen Task Force (Tr. 270 L. 9-21). He also identified various inside and outside IBM counsel as members of the CS&M III Task Force (Tr. 271 L. 6-14).

In general, the testimony given by Bullen and Faw offer support to finding 9. It cannot be overlooked, however, that both of these witnesses were closely connected with IBM. Additionally, after carefully studying all of Bullen's testimony, it became quite evident that he was extremely vague at times and often could not recall specific information. For example, he could not recall the term "Business Practices Strategic Task Force." (Tr. 166 L. 2-9). This was the formal name of the Bullen Task Force when it was first created. It appeared on PX-11, 12, 13 and 14, all of which are memos dated December 20, 1968 and written by Bullen.

Having set forth the evidence from the record supporting and contradicting finding 9, the court can now evaluate finding 9. As stated earlier, the Supreme Court has defined clearly erroneous as follows: "A finding is 'clearly erroneous' when ... although there is evidence to support it, the reviewing court

on the entire evidence is left with the definite and firm conviction that a mistake has been committed." 22/ Applying this test to the matter under review, the court concludes that finding 9 is clearly erroneous and must be rejected.

First, finding 9 fails to reflect the evolution of the Bullen Task Force into the Bullen-CS&M III effort. There is testimony that loosely lumps, as does finding 9, the Bullen and CS&M III Task Forces together. The court, however, is convinced that the Bullen Task Force was established shortly after November 7, 1968, which is the date of the memorandum from T. J. Watson, Jr. to Bullen (PX-8). Thereafter, some two or three months later a larger group was formed to do the work outlined by the original Bullen group. It was this larger group that became known as CS&M III within IBM. This sequence of events is presented in the Figueroa deposition (PX-48, 49, 53B, and 54A) but is not reflected in finding 9.

In reaching this conclusion the court has accorded greater weight to the documents and deposition excerpts submitted by plaintiff than to the testimony and affidavits tendered by defendant. The affidavits, unlike the documents, were prepared in contemplation of the special masters' proceeding and must be weighed accordingly. With respect to the testimony of Bullen and Faw, it should be observed that both of these witnesses were closely connected with IBM. Bullen is

a shareholder and a former Senior Vice President of IBM; Faw is currently the Assistant Treasurer of defendant. In any event, Bullen's testimony was often so vague and indefinite that it cannot be accorded much weight.

Additionally, PX-8 (the Watson-Bullen memo) was a clear command to Bullen from the chief executive officer of IBM to take charge of "business practices." Although Bullen testified that the term "business practices" meant "The work required and requested of outside and inside counsel" (Tr. 153), this is not reflected in PX-8. To the contrary, PX-8 strongly suggests that Bullen's work was business related. See note 9 supra.

Lastly, there is a clear and unequivocal admission by Thomas D. Barr, Esquire (the partner in the Cravath firm who is in charge of this litigation,) which stated that CS&M III and IV "were studies undertaken by the IBM Corporation to consider and to make certain changes in the way in which it conducted business." Furthermore, Barr asserted "that CS&M III and CS&M IV are not covered by the attorney-client privilege to any greater or different extent than the ordinary run-of-the mill documents might be." This admission, which the court regards as having great significance, will be discussed in detail in connection with plaintiff's objection to finding 13.

The next finding to which the Government objected is finding 13, which states:

> The work of CS&M IV was directed by Messrs. Evangelista and McKinney, inside counsel to IBM.

Plaintiff put forth three exhibits in support of its objection to finding 13. The first two (PX-68 and PX-73) pertain directly to finding 13. The third (PX-47) is a deposition excerpt in which Mr. Barr stated that CS&M III and IV were business studies entitled to no special application of the attorney-client privilege. Although this exhibit does not directly bear on finding 13, it tends to undermine all of the masters' findings and conclusions with regard to CS&M III and IV.

PX-68 is part of a memorandum to R. A. Pfeiffer, Jr. from D. W. Sweeney dated August 7, 1969. The memo contains a list of items to be discussed with Mr. O. M. Scott. The first item is listed under the heading "Service Practices Task Force." It states:

> This is headed by Mr. D. W. Brunner. Attached is subject list and members. Members of the group meet weekly with Messrs. Bullen, Cary, Beitzel, Opel, Scott, Figueroa and Forese. This group may be as important as the Bullen Task Force.

Attached to this memo are two lists. One is styled "Maintenance Task Force Review Committee;" the other is headed "Financial Projects."

PX-73 is a short excerpt from the deposition of Sturges, an IBM employee involved in CS&M IV, which indicates that CS&M IV was headed by Dale Brunner, an IBM businessman.

The Government points out that PX-68 does not list Mr. Evangelista as part of the Service Practices or Maintenance Task Force, which were some of the other names by which CS&M IV was known. Plaintiff also asserts that the only attorney listed among twenty-five named individuals is Lew McKinney. More significantly, PX-68 indicates that this task force met weekly with a group consisting solely of IBM businessmen. Additionally, PX-68 does not indicate or even suggest that the work of CS&M IV was on behalf of counsel. In fact, the list of financial projects strongly indicates that CS&M IV was concerned with business problems.

The last document offered by plaintiff in support of its objection to finding 13 is the previously mentioned admission of Mr. Barr. This document (PX-47) is a two-page excerpt from the deposition of Papes, an IBM employee, in which Barr made a statement regarding the status of CS&M III and IV. In relevant part, Mr. Barr stated:

CS&M III and IV were studies undertaken by the IBM Corporation to consider and to make certain changes in the way in which it conducted business

At the time we produced documents to CDC about the end of 1969 and the beginning of 1970 I was aware of the existence of these studies but had not had any opportunity to determine the nature of them, and because it was not clear to me the extent to which those studies were covered by the attorney-client privilege, I instructed the document reviewers of whom there were very many to withhold from production all documents which bore the stamp CS&M III or CS&M IV. Plainly they were not successful in all cases in withholding those documents.

Since that production and indeed very recently I have had an opportunity to determine that CS&M III and CS&M IV are not covered by the attorney-client privilege to any greater or different extent than the ordinary run-of-the mill documents might be.

To make that clear, there are or may be within all of the documents stamped CS&M III and CS&M IV some documents which reflect advice sought or advice given by attorneys, but in the main the documents stamped CS&M III and CS&M IV are not privileged.

I therefore intended to produce all of the documents which have been withheld which bear that stamp, except those which, upon a review, are determined to be in and of themselves privileged.

This statement is clear and unequivocal. First, it states that the CS&M III and IV studies were undertaken "to consider and to make certain changes in the way in which [IBM] conducted its business." Secondly, the statement concedes that although certain documents stamped CS&M III and CS&M IV may be privileged, "in the main the documents stamped CS&M III and CS&M IV are not privileged."

PX-47 is the most significant document submitted in support of the Government objections to the report of the special masters. It pertains not only to finding 13, under which the Government chose to discuss it, but rather to all the masters' findings and conclusions concerning CS&M III and IV.

IBM presented a three-pronged argument in support of finding 13. First, defendant pointed to relevant excerpts from the affidavits. Secondly, it argued that the conclusions drawn by the Government from PX-68 and PX-73 are incorrect. Thirdly, as to the Barr statement (PX-47), IBM relied on a statement made by Charles M. Waygood, Esquire (IBM lead counsel for proceedings before the special masters), which attempted to explain Barr's admission. At the urging of Master Meyer, counsel for plaintiff avoided the necessity of having Mr. Barr testify at the hearing by stipulating that if Barr were called to testify he would give the same explanation made by Mr. Waygood.

Support for finding 13 can be found in the affidavits of IBM counsel. After explaining why it was necessary to establish CS&M IV, [23/] Mr. Turner outlined how CS&M IV operated. This outline is contained in paragraph 18 of his affidavit, which provides as follows:

> The senior personnel assigned to CS&M Study IV acted essentially as a Steering Committee and additional personnel were employed to perform much of the detail work and fact analysis. The day-to-day direction of the task force was performed by a senior IBM attorney, D. A. (Dan) Evangelista, and an attorney from the field engineering division, L. S. McKinney, assisted by D. W. Brunner, a businessman. I reviewed and commented upon the work of the group from time to time, but was not as closely associated with it as had been the case on prior occasions. The task force's work commenced in approximately June, 1969 and continued into early 1970, with revisions in IBM's maintenance policies and contracts occurring in the period of March - May, 1970. As with CS&M III, files and documents relating simply to changes in policy and implementation of those changes, as distinguished from studies of legal issues and reports prepared for counsel, have been produced and not withheld as privileged or work product.

In paragraph 17 of his affidavit, [24/] Turner stated that the need for expert analysis of "maintenance" related issues "led to what was termed CS&M Study IV. . . ." As with CS&M III, Turner does not state that this task force was established at his specific request. In paragraph 18 of his affidavit

Turner stated that Evangelista and McKinney (in-house IBM lawyers) assisted by Brunner (an IBM businessman) monitored the day-to-day work of CS&M IV. With the exception of any mention of Brunner's role, this statement is reflected in finding 13.

Additional support for finding 13 is contained in the Katzenbach affidavit. 25/ In the main, Mr. Katzenbach's averments parallel those made by Turner. Katzenbach, did, however, state that "[He] generally directed the work of [CS&M IV], with the assistance of Messrs. Dullen and Faw. . . ."

In the second part of its argument in support of finding 13, defendant argues that plaintiff's reliance on PX-68 as listing all members of the CS&M IV Task Force is misplaced. The Sturges deposition, part of which is contained in PX-73, indicates that Howard Figueroa was a member of the CS&M IV steering committee. 26/ PX-68 does not, however, list Figueroa. Sturges testified at his deposition that he was a secretary to the CS&M IV steering committee and that there were between twenty and fifty people involved in CS&M IV. 27/ Neither Sturges' own participation nor the involvement of the number of people that Sturges said were involved is reflected in PX-68. In fact, PX-68 only purports to list the Review Committee of the Maintenance Task Force. Accordingly,

it is likely that Evangelista and other attorneys may have been part of the CS&M IV study. Nevertheless, it is of moment that Evangelista--who both Turner and Katzenbach stated was the senior in-house counsel assigned to CS&M IV--was not a member of the task force review committee.

Moreover, it should be observed that Sturges' deposition testimony regarding CS&M IV was very vague and imprecise. He could not recall very many of the people associated with this effort, he was unable to provide information about reports that it issued, and he could not recall whether counsel worked with the task force steering committee. More significantly, he testified that his role as secretary to the CS&M IV steering committee was relatively minor. This suggests that he had other business responsibilities while serving on the task force.

As to the Barr statement, defendant relies on the stipulation entered into between the parties during the hearings before the masters. The entire discussion regarding Barr's statement and Waygood's explanation during the hearing is reproduced in the margin. 28/

Based on all the creditable evidence the court finds that the masters erred in finding 13 and accordingly finding 13 is rejected. In reading this conclusion, the court has placed strong reliance on the Barr admission. Although defendant urges that the admission should be limited to the

implementation phase (as explained in the stipulation) the court cannot accept this position. The Barr statement was clear and unequivocal. It asserted that CS&M III and IV were formed to consider and effectuate changes in the way in which IBM conducted its business. It concluded that although certain documents generated by these task forces were privileged because they reflected advice given by or sought from counsel, that in general no special privileged status could be granted to these groups. There was no implementation phase limitation. The statement referred to all documents stamped CS&M III or IV. Accordingly, not only finding 13, but all findings and conclusions according a general privileged status to CS&M III and IV must be rejected.

The remainder of the Government's objections to the masters' findings of fact all deal with the Office of Business Practices (OBP). Finding 17 is the first finding of fact concerning OBP to which plaintiff objected. It states as follows:

> The Office was established at the instance of Burke Marshall (then Vice-President and General Counsel to IBM) and George B. Turner (a partner in the Cravath firm). Harold F. McGuire, Jr. (an associate with the Cravath firm) was assigned to direct and work with this group.

The Government contends that th re was an absence of attorney direction for OBP. This controverts the assertion in finding 17 that "Harold F. McGuire, Jr. (an associate with the Cravath firm) was assigned to direct and work with this group."

It should be noted that this finding merely states that Mr. McGuire "was assigned to direct and work with this group." (emphasis added). It does not say that Mr. McGuire actually performed in any directorial capacity. Nevertheless, the implication is that Mr. McGuire worked with and directed OBP and the court will treat finding 17 as if it stated that McGuire performed the functions assigned to him. In paragraph 3 of his affidavit McGuire stated:

> . One of my initial assignments by Mr. Turner was to direct and work with a group of IBM businessman, subsequently called the "Business Practices" group, assembled under the direction of Mr. Turner and IBM's Vice President and General Counsel, Burke Marshall, to assist counsel. My responsibility consisted of directing a file search within IBM, conducted by this group, which eventually resulted in the transmittal to the Department of Justice of IBM documents that had been requested by it. These documents were given to the Department during the summer and fall of 1967. I was also assisted by IBM attorneys and other outside counsel.

McGuire did not aver that he directed OBP on a regular basis. All he said was that he directed a group of IBM businessmen in a

file search and that this group was subsequently called the Business Practices group. The file search was not asserted to be work generated by OBP.

Additional support for the contention that the file search directed by McGuire was not part of the regular work of OBP is found in the hearing testimony of OBP member Otis Page. 29/

Support for the assertion in finding 17 that "Harold F. McGuire, Jr. (an associate with the Cravath firm) was assigned to direct and work with this group" is found in McGuire's affidavit and in the testimony of three of the five witnesses who gave testimony at the hearings before the masters.

As stated earlier, McGuire's affidavit does not support the assertion that he had any supervisory responsibility over OBP. Nevertheless, three witnesses stated that they had had contact with McGuire while they were working at OBP. Wilfred Carl Gamrath, a retired IBM official, who is currently receiving retirement benefits from defendant, testified that he had been assigned to work in OBP sometime in either June or July, 1967. When he first arrived at OBP he worked on document production. He asserted that "Skip [Harold F.] McGuire was [his] legal contact. . ." in regard to his work (Tr. 111 L. 14-16). He testified further that he "received letters or memoranda . . from Mr. Seggerman [an IBM in-house counsel] . . . asking for something or wanting [him] to do something" (Tr. 116 L. 14-16).

He also stated that he "might have received letters from Mr. McGuire and Mr. Schwarz" (Tr. 116 L. 16-17). He seemed more positive about Mr. Schwarz than Mr. McGuire (Tr. 116 L. 17-19). On cross-examination, by IBM counsel, Gamrath testified that during his tenure at OBP he worked with about ten lawyers including McGuire (Tr. 127 L. 2-8) and that he took "technical direction" from McGuire (Tr. 125 L. 19).

The next witness who testified that he worked with counsel, including McGuire, while at OBP, was Stewart H. Greenfield. Although no longer employed by IBM, Greenfield stated that he was a stockholder of defendant. While working at OBP, Greenfield testified that he had discussions with a number of lawyers including McGuire, Seggerman and Schwarz (Tr. 206 L. 13-17). On cross-examination he stated that he prepared reports at the request of these same three attorneys (Tr. 222 L. 22 to Tr. 223 L. 2). Hilary A. Faw, Jr., testified that he is currently Assistant Treasurer of the IBM Corporation (Tr. 226 L. 19-22). He stated that during his association with OBP he authored reports which "were directed to Mr. George B. Turner and to his associates, who were at that time working with him from Kravath, [sic] Swaine & Moore, and to Mr. Burke Marshall (Tr. 243 L. 18-21).

In evaluating the part of finding 17 attacked by the Government, the court is satisfied that it is erroneous and

must be rejected. Although there are bits and pieces of testimony suggesting that McGuire worked with OBP, it cannot be overlooked that McGuire failed to directly assert that he had a working relationship with OBP. Additionally, even those witnesses (Gamrath, Greenfield and Faw) who contended that McGuire worked with them, generally referred to his work in connection with the document search rather than to OBP generated work.

The next finding objected to is Finding 18, which states as follows:

> Frank J. Cummiskey, an IBM employee, was the first director of the Office and reported directly to Burke Marshall. He was then joined by other employees including Hilary A. Faw (who later became Director of the Office), Otis S. Page, Carl Gamrath, Stuart E. Greenfield, Jerry Specter, William Wakeford, and Joseph Rogers (emphasis added).

The Government objects to the statement in finding 18 that Cummiskey "reported directly to Burke Marshall." At the time OBP was established, Marshall was Vice President and General Counsel of defendant. Plaintiff asserts that this statement is in conflict with PX-6A, which contains IBM Organization Directories dated January 1, 1967; April 30, 1967; July 31, 1967; November 15, 1967; July 18, 1969 and July 31, 1970. The Government contends that PX-6A demonstrates that OBP did not report to attorneys from the time of its creation--

sometime between January and April 1967--until November 1967. From its creation until November 1967, OBP reported to Mr. Bullen, who was then Vice President and Group Executive, Corporate Controls and Services Staff. Additionally, plaintiff contends that the reporting relationship to attorneys, which it contends was not established until November 1967, ended in August 1969 when OBP again reported to Bullen.

The organizational charts reveal the following:

1. Directory dated 01/31/67--Does not show any organization within IBM called Office of Business Practices. For purposes of corporate structure B. Marshall (Vice President and General Counsel) is reporting to R. H. Bullen (Vice President and Group Executive).

2. Directory dated 04/30/67--Lists F. J. Cummiskey as "IBM Director of Business Practices," and shows him reporting to R. H. Bullen.

3. Directory dated 07/31/67--Lists three people under OBP: Cummiskey (director), W. C. Gamrath (manager) and O.S. Page (consultant). OBP is shown in a reporting relationship with Bullen.

4. Directory dated 11/15/67--For the first time OBP is shown to have been in a reporting relationship to B. Marshall, Vice President and General Counsel.

5. Directory dated 07/18/69--Shows M. A. Faw, Jr. as "IBM Director of Business Practices" in a reporting relationship to N. B. Katzenbach, then Vice President and General Counsel.

6. Directory dated 07/31/70--Lists Faw (IBM Director of Business Practices) as reporting to Senior Vice President Bullen.

Sometime between July 18, 1969 and July 31, 1970, OBP resumed its reporting relationship to Bullen. Plaintiff offered PX-6 to show that this shift from the general counsel's office to Bullen occurred in August 1969. In relevant part, PX-6 contains a chart of the Office of the Senior Vice President (R. H. Bullen). The chart indicates that the IBM Director of Business Practices (H. A. Faw, Jr.) reported to Bullen.

PX-6 and PX-6A show that OBP reported to Bullen from the time it was created until November 1967. From November 1967 until August 1969 OBP reported to the Office of Vice President and General Counsel. Thereafter, it again reported to Bullen. Accordingly, the Government maintains that finding 18 is erroneous since it fails to reflect these shifts in reporting relationships.

As with all the masters' findings, the major evidence supporting finding 18 is contained in the affidavits of IBM counsel. After stating that upon the advice of Cravath, Swaine & Moore he decided to establish a small group of IBM businessmen to assist counsel, 30/ Mr. Marshall averred as follows:

> The permanent group which I established was given the name Office of Business Practices, a corporate headquarters department (for organizational and accounting purposes) and not to be confused with a department which I understand had the same or a similar name in the Data Processing Division of IBM. It was headed initially by Frank Cummiskey, who reported directly to me as General Counsel of the Corporation. Shortly after this group was set up it became clear that an area in which the lawyers particularly needed assistance involved financial matters. Mr. Hilary A. Faw, Jr. had had extensive experience in this field. In early 1967 Mr. Faw, who was then an Assistant Treasurer, joined the group. During the summer of 1968 Mr. Faw became the head of that group and was given the title Director of Business Practices. The group worked only for me and the Cravath firm, under our direct supervision, and had no business responsibilities.

The second sentence of the above excerpt apparently is the basis for the statement in finding 18 that Cummiskey "reported directly" to Burke Marshall.

In further support of finding 18, defendant argued that plaintiff's reliance on the organizational directories was misplaced. [31/] Defendant contended that the directories were inaccurate, [32/] that they did not purport to show when a reporting relationship was established and that OBP was not established to assist IBM's internal Legal Department, but rather to aid outside legal counsel. Thus, it is argued that the failure of the directories to show a reporting relationship to the Office of Vice President and Legal Counsel is insignificant.

Having reviewed the evidence supporting and contradicting finding 18, the court is convinced that finding 18, inasmuch as it purports to find attorney direction of OBP by Burke Marshall, is clearly erroneous. The court recognizes that the organizational directories relied on by plaintiff may be inaccurate. On the other hand, the major evidence supporting this finding is contained in an affidavit of an interested affiant. Where, as here, the court must choose between contemporaneous documents or the hindsight observations of an interested witness, the court is constrained to choose the former. Consequently, finding 18 is modified as follows: During the period between November 15, 1967 and August 1, 1969 OBP was directed by counsel. At all other times it was directed by IBM businessman R. H. Bullen.

The last finding specifically objected to by the Government is finding 21. In attacking finding 21, however, plaintiff suggests that findings 19 and 22 must also be rejected.

Finding 21:

> Except as the content of the document or the file source from which it was produced, as shown by the listings, otherwise indicates, there is no evidence that the reports emanating from the Office of Business Practices were circulated to people other than members of that office and IBM counsel.

Finding 19:

> The sole purpose of the Office was to assist IBM's counsel in connection with the Department of Justice litigation. The members of the Office had no business responsibilities during this time.

Finding 22:

> From February or March, 1967 until late 1970, Mr. Faw was relieved of all business responsibilities in IBM (with two possible but irrelevant exceptions), and was detailed, for that three-year period to work with counsel both in the Office of Business Practices and the various CS&M task forces. Mr. Faw was the principal IBM executive coordinating the efforts of counsel and the IBM businessmen.

Simply stated, the Government's attack on findings 19, 21 and 22 is that a document, [33/] which IBM claimed was privileged and which related to the admittedly nonprivileged Project Yardstick [34/] was generated from within OBP, and was distributed to IBM businessmen outside OBP. Accordingly, the Government contends that OBP was not established solely to assist counsel as reflected in finding 19. This seems apparent from the fact that members of OBP were involved in Project Yardstick. Moreover, since this document (the Faw to Beitzel memorandum described in footnote 31) was circulated to IBM personnel outside OBP finding 21 is also negated. Lastly, since the author of this document is H. A. Faw, Jr. finding 22 seems questionable.

IBM responded to these arguments by pointing out that this document was mistakenly listed as privileged and that it had in fact been produced to the Government numerous times. Moreover, defendant contends that Mr. Faw was interested in Project Yardstick because Mr. Turner stated that Project Yardstick "was well worth pursuing rom a legal standpoint, as well as from the standpoint of whatever business motivations had originally given rise to the project." (Turner Affidavit ¶ 10).

Additionally, IBM points to testimony indicating:

(1) that the sole purpose of OBP was to assist IBM's counsel and that OBP was directed by counsel (Page-Tr. 58 L. 23 to Tr. 59 L. 17, Tr. 80 L. 6 to Tr. 81 L. 11; Gamrath,-Tr. 96 L. 9-14, Tr. 106 L. 12-19, Tr. 108 L. 3-10, Tr. 111 L. 9-16, Tr. 116 L. 10-20, Tr. 126 L. 20 to Tr. 127 L. 25; Bullen-Tr. 177 L. 10 to Tr. 178 L. 8, Tr. 179 L. 13-20; Greenfield-Tr. 205 L. 3 to Tr. 207 L. 6, Tr. 222 L. 18 to Tr. 223 L. 4, Faw-Tr. 232 L. 23 to Tr. 234 L. 11, Tr. 243 L. 11-21) and (2) that reports and other materials emanating from OBP were maintained under tight security with access restricted to OBP members and counsel (Page-Tr. 65 L. 5 to Tr. 69 L. 22, Tr. 81 L. 12-25; Gamrath-Tr. 109 L. 9 to Tr. 114 L. 9; Greenfield-Tr. 215 L. 2-25, Tr. 219 L. 5-21, Tr. 223 L. 5-19; Faw-Tr. 246 L. 7 to Tr. 247 L. 19).

reviewing the entire record the court believes that the Government has amply demonstrated that OBP members were involved in Project Yardstick. Accordingly, the masters' basic finding that OBP was established by counsel for counsel must be rejected. Therefore, findings 19 and 21 are rejected as clearly erroneous. Since H. A. Faw, Jr. was involved in Project Yardstick, finding 22 must also be rejected. Although the masters may have thought that Faw's Yardstick involvement was an irrelevant exception to his nonbusiness status, the court cannot agree with this proposition. Since finding 22 fails to reflect Faw's business activities during the time he served on OBP, it is deficient.

The masters' conclusions of law are generally mixed questions of fact and law predicated on the findings of fact. Since the court has refused to adopt many of the masters' findings of fact, the conclusions of law must necessarily be modified. Accordingly, rather than discuss the Government's objections to specific conclusions of law, the court will merely state its rulings on each conclusion.

Conclusion I states that, "The four CS&M task forces were created under the guiding hand of counsel to prepare for litigation, either pending or anticipated." This conclusion is modified so as to exclude CS&M III and IV.

Conclusion II states that "The Office of Business Practices was similarly created to prepare for litigation, either pending or anticipated." In view of the court's ruling with respect to findings 19, 21 and 22, this conclusion must be rejected.

Conclusion IIIA, states as follows:

> The evidence presented establishes that the work of the four task forces and the Office of Business Practices was primarily related to litigation (either pending or anticipated or the obtention of legal advice. (emphasis added).

In view of the rulings of the court on the masters' findings of fact, it seems clear that this conclusion must be rejected with regard to CS&M III and IV and OBP. The masters appeared hesitant about stating that the exclusive function of the task forces and OBP was assistance to counsel. This is apparent from their use of the word "primarily" in conclusion III A.

Conclusion III B states:

> The evidence presented establishes that for the purpose of protecting the confidentiality of the documents the personnel of the task forces and of the Office of Business Practices and the documents used and prepared by them were sufficiently segregated from the rest of IBM personnel and their business records. Although oral progress reports were occasionally made to IBM executives not connected with the task forces or the Office of Business Practices, these communications were guarded and were made in the presence of counsel in order to keep the senior echelon of IBM management apprised of legal developments.

As to the CS&M III and IV and OBP this conclusion must be rejected.

Conclusion III C provides:

> Documents generated by the four task forces and the Office of Business Practices are therefore privileged either as work product or as communications between attorney and client unless the content of the document establishes that the purpose of the document was other than litigation or the obtaining of legal advice or unless the content of the document or the file source from which it came, as stated in the listings, establishes that the requisite confidentiality has not been maintained.

In this conclusion the masters' accord a general privileged status to the task forces and OBP predicated on their findings of fact that these groups were established by counsel to assist in the defense of anticipated or pending litigation or in the obtainment of legal advice. On the other hand, the masters sought to limit application of this privileged status on two grounds: first, if the content of a particular document established that the purpose of the document was not related to litigation or obtainment of legal advice, and secondly, if the requisite confidentiality was breached with regard to a particular document. The attempt to limit the application of the privileged status on these grounds appears to be inconsistent with the purpose of according a general privileged status to the groups in question. Moreover, the exceptions tend to

undermine the masters' findings of fact. In establishing their scheme to review documents the masters accorded a privileged status to all documents generated by the task forces and OBP and created exceptions for withdrawal of this privileged status. In view of the rulings of the court, it seems that the scheme set forth by the masters should be reversed--i.e. all documents should be considered not privileged unless it can be concluded, from the face of the document or from the context, that a document is, in fact, privileged. This is the customary procedure by which documents are reviewed for claims of privilege. Accordingly, conclusion III is rejected.

Conclusion IV states:

> Even though such a document was not prepared for the present litigation, the document is privileged as work product if it was prepared for a lawsuit involving substantially identical issues.

This conclusion is rejected. Although there is a split in authority on this point (see 8 C. WRIGHT & A. MILLER, FEDERAL PRACTICE AND PROCEDURE: Civil § 2024, at 200-202 (1970), compare cases cited at n. 26 with those listed at n. 27), this court is of the view that for something to be considered "trial preparation material" (work product) under Fed. R. Civ. P. 26(b)(3) it must be prepared "in anticipation of litigation or for trial" in the case in which the special immunity

accorded to such material is sought. This view was articulated by Chief Judge Sheridan in Honeywell, Inc. v. Piper Aircraft Corp., 50 F.R.D. 117 (M.D. Pa. 1970), in which it is stated:

> An attorneys' memorandum in a prior case involving different parties does not have the protection of the "work product" principle: 4 Moore, Federal Practice para. 26.23 [8.-3] at p. 1436 (2d ed.). Hanover Shoe, Inc. v. United Shoe Machinery Corp., supra; Tobacco & Allied Stocks, Inc. v. Transamerica Corp., D. Del. 1954, 16 F.R.D. 534; Cf. Republic Gear Co. v. Borg-Warner Corp. 2 Cir. 1967, 381 F.2d 551.

Id. at 119.

Conclusion V states:

> In all cases where such a document went from an IBM employee to an attorney (or his agent), or vice versa, the attorney-client privilege will attach unless the document reflects solely a business judgment (rather than a purpose to obtain legal advice or aid in litigation) and except in those cases where the content of the document or the file source from which obtained, as stated in the listings, establishes that the requisite confidentiality has not been maintained.

Conceivably, this conclusion extends the attorney-client privilege to every IBM employee. It does, however, have the same exceptions as stated in conclusion III C. Notwithstanding the exception, which would require an unspecified degree of confidentiality, the court is of the view that conclusion V should be rejected. The court has made a thorough study of the various theories that have been developed

to apply the attorney-client privilege in the corporate context. The court is of the view that the "control group" theory, first articulated by Judge Kirkpatrick in City of Philadelphia v. Westinghouse Electric Corp., 210 F.Supp. 483 (E.D. Pa. 1962), provides the most satisfactory solution to the problem. See Note, Attorney-Client Privilege for Corporate Clients: The Control Group Test, 84 HARV. L. REV. 424 (1970). Consequently, the masters are directed to apply the "control group" theory to the assertions of attorney-client privilege by defendant.

Conclusion VI A states:

> In those cases where the document went from one IBM employee to another, the document is entitled to protection as work product except insofar as the document reflects a business judgment. It may also be entitled to the protection of the attorney-client privilege if it was transmitted through the line of corporate communication as either legal advice received or data prepared as a basis for the rendition of legal advice.

In view of the court's prior discussion and rulings this conclusion is rejected. The second sentence of conclusion VI A is amply covered by the court's ruling on finding V. As to the first sentence, which deals with work product, the masters are directed to review each document to determine whether work product immunity should be accorded. This must be revealed from the face of the document or from the context in which

the document is presented for review. In other words there will be no assumption that a document is work product merely because it went from one IBM employee to another.

Conclusion VI B states:

> A document which is not protected by the attorney-client privilege but which is privileged as work product may nevertheless be reached if the Government can demonstrate to the Masters that it "has substantial need of the materials" and that it "is unable without undue hardship to obtain the substantial equivalent of the materials by other means." F. R. Civ. P. 26(b)(3). The Government will be afforded opportunity for such a hearing by the Masters in any decision holding particular documents to be privileged as work product.

This conclusion is adopted.

Conclusion VII (which the masters' report mislabeled VIII).

> In making recommendations to the Court regarding the validity of claims of privilege asserted with respect to particular documents, a Master shall recommend that a document be found "wholly privileged" or "wholly non-privileged" or "privileged in part" and as to any document in the last category shall (a) indicate by enclosing within red ink brackets marked upon the document those portions of the document which he recommends be found privileged and be excised from the document before disclosure of it, and (b) shall file all such "privileged in part" documents under seal with the Clerk of the Court at the time of filing of his report on such documents.

This conclusion is adopted.

IV. IBM OBJECTIONS

Defendant objects to certain language in finding 21, conclusion III C and conclusion V. [35/] Since the court has rejected finding 21 and conclusions III C and V, it is unnecessary to rule on defendant's specific objections. The masters, however, are free to take any relevant matter--including the file source from which a document was withheld--into consideration in making recommendations to the court on defendant's asserted claims of privilege.

The masters are directed to review the assertions of privilege by defendant for the documents generated by the CS&M task forces and OBP in conformance with this opinion.

So ordered.

David N. Edelstein
Chief Judge

Dated: New York, N. Y.
June 27, 1974

FOOTNOTES

1/ The affiants were: George B. Turner, then a partner in the firm of Cravath, Swaine & Moore; Nicholas deB. Katzenbach, currently the Vice President and General Counsel of IBM; Burke Marshall, formerly the Vice President and General Counsel of IBM and currently Deputy Dean and Professor of Law at the Yale Law School; Harold F. McGuire, Jr., formerly an associate with the firm of Cravath, Swaine & Moore and then an Assistant United States Attorney for the Southern District of New York; G. Oliver Koppell, formerly an associate of the firm of Cravath, Swaine & Moore and currently associated with the firm of Krause, Hirsch & Gross.

2/ Transcript of the hearing before Special Masters on October 24 and 26, 1973 at 2 [hereinafter referred to as Tr. ____].

3/ Plaintiff called to testify under subpoena at the hearings four former employees of IBM, including Otis S. Page, Jr., a former employee of IBM who worked for a time in the Office of Business Practices, was then employed by Memorex Corporation and is presently employed by the firm of Shugart Associates; Carl Gamrath, a retired former employee of IBM who also worked for a time in the Office of Business Practices; Richard H. Buller, a former senior Vice President of IBM whose employment with IBM terminated on May 6, 1972; and Stewart H. Greenfield, a former employee of IBM, presently a partner in the Sprout Capital Group and associated with Donaldson, Lufkin & Jenrette, Inc., who also worked for a time in the Office of Business Practices. Plaintiff also called Hilary A. Faw, Jr., the Assistant Treasurer of IBM since 1965 and the Director of the Office of Business Practices commencing in July, 1968.

4/ In addition to the testimony of the witnesses, mentioned in note 3, supra, plaintiff entered into evidence selected excerpts from the deposition testimony of five additional employees including H. G. Figueroa, J. J. Forese, D. Sturges, J. P. McDermott and D. A. Finley.

5/ These excerpts were from the depositions of Messrs. Figueroa, Sturges and McDermott.

6/ United States v. United States Gypsum Co., 333 U.S. 364, 395 (1947).

7/ The Government in the zeal of advocacy implied that the Gypsum case commanded the trier of fact to reach the conclusion dictated by the contemporaneous documents:

> It is plaintiff's position that, in these circumstances the Special Masters were required to resolve evidentiary conflicts between IBM contemporaneous documents on the one hand and the assertions of IBM lawyers and businessmen on the other in favor of the conclusion dictated by the contemporaneous documents.

Memorandum in Support of Motion to Set Aside and Amend the Final Report of Special Masters After Evidentiary Hearings of October 24 and 26, 1973 at 2 (emphasis added). The rule only states that little weight is to be accorded to oral testimony which is contradicted by contemporaneous documents.

8/ The exhibits referred to are those admitted into evidence at the hearings before the special masters. Hereinafter these exhibits will be referenced as follows: PX- ___.

9/ PX-8 reads as follows:

COPY

MEMORANDUM

CONFIDENTIAL November 7, 1968

To: Mr. R. H. Bullen

Confirming our discussion with you today on the matter of business practices, you will become, effective immediately, Special Assistant reporting to me. In this assignment you will be expected to:

1. Organize and coordinate all facets of our current business practices work. Your plan to do so should address the various pieces of work currently under way as well as that additional work which you feel is necessary. You have the authority to get assistance from the Management Committee, Corporate Staff, and line organization.

   This plan should be completed and reviewed with the MRC as soon as possible.

2. Keep the Corporate Office continuously informed as to the status of ongoing work and any new developments.

3. Arrange to involve the Corporate Office appropriately in discussions leading to strategic, policy, and negotiating decisions.

It is our intent that this assignment is a temporary one to last approximately 120 days. The end date will be determined by the time required to complete the necessary work to reach conclusions on the action and policy items included in your work plan. The overall objective of this phase should be to provide us with a firm strategic base from which we can soundly deal with specific incidents in the months ahead.

At the completion of this phase of the work we will make a judgment as to the requirements for future management of this area.

TJW,Jr/gp — T. J. Watson, Jr.
cc: Mr. T. V. Learson
Mr. A. K. Watson
Mr. A. L. Williams

COPY

10/ The addressees of this memorandum were all senior IBM officers: T. J. Watson, Jr. was Chairman of the Board, T. V. Learson was President (and more recently Chairman of the Board), A. K. Watson was Vice Chairman of the Board, A. L. Williams was Chairman of the Executive Committee.

11/ MRC stands for Management Review Committee, which was one of the highest management groups within IBM.

12/ Unbundling is the practice of charging computer customers separately for the furnishing of various services (such as maintenance) and software.

13/ Other testimony suggested that the task force which Bullen headed was established in December, 1968 See, e.g. Turner Affidavit, ¶ 13. Bullen's task force was probably organized during November and December 1968.

14/ Figueroa identified the original members as follows:

> Mr. Bullen, who was a Corporate Vice President; Mr. Faw, who was an Assistant Treasurer; Mr. Opel, Corporate Vice-President; Mr. Rizzo, who I think at that time was Corporate Controller; Mr. McLaughlin, counsel; Mr. Katzenbach, Corporate Vice-President and counsel; Mr. Turner from Cravath, Swaine and Moore; Mr. Seitzel, Assistant General Manager at the Data Processing Group and Vice-President; Mr. Forese, DP Group Director of Finance; Mr. Figueroa, DP Group Director of Management Systems, and although I don't think he was there when we first got started, Mr. Armstrong, and I don't recall his position.

PX-48.

15/ PX-51, which is an excerpt from the deposition of Forese, indicates that there were approximately 250 people on the Bullen Task Force during the early stages and approximately 500 people during the implementation phase. The implementation phase refers to the period after June 23, 1969, when IBM announced that it would unbundle. During the time period the larger number of people on the task force effectuated the changes in business procedure required by the unbundling decision.

16/ These employees were: W. E. Burdick, D. A. Finley, D. T. Kearns, J. T. Lawson, J. P. McDermott, C. B. McLaughlin, H. W. Stigler, D. M. Sturges, C. P. Webb.

17/ "DPG HQ Harrison" apparently stands for Data Processing Group Headquarters. Harrison is a town in Westchester County, New York.

18/ See note 1 supra and accompanying text.

19/ Turner affidavit ¶ 9 and ¶ 12, which provide, in pertinent part as follows:

¶ 9. At my specific request, in November and early December, 1967 a small task force of IBM businessmen was established to review and analyze various facts and issues relating to the industry practice and IBM's methods of doing business and to furnish such information to me and other outside counsel for the purpose of enabling us to properly advise the corporation under the circumstances. The task force was headed by Howard G. Figueroa and came to be known as CS&M I or the Figueroa task force. . . . (emphasis added).

¶ 12. As a result of the conferences with the Department and the receipt of the draft complaint, and again at my specific suggestion, a task force was formed in September, 1968 to conduct further studies and analyses to enable my firm and inside counsel more fully to understand the current business practices and to prepare for what appeared to be inevitable litigation.

The second task force was headed by David T. Kearns and became known as CS&M II or the Kearns task force.

20/ Katzenbach's predecessor was Burke Marshall, whom Katzenbach succeeded as Vice President and General Counsel of IBM.

21/ See pp. 3-4 supra.

22/ United States v. United States Gypsum Co., 333 U.S. 364, 395 (1947).

23/ In paragraph 17 of his affidavit, Turner explained why CS&M IV was established. He averred:

By the Spring of 1969, as a result of the pending litigation and the substantial amount of work done up to that time, I identified a number of additional questions requiring further analysis and consideration by counsel. I discussed those with Mr. Marshall and Mr. Katzenbach and we agreed that certain senior members of the prior task force, under the direction of Mr. Katzenbach and Mr. McLaughlin and with the assistance of Mr. Faw, would analyze those and additional questions identified by Messrs.

Marshall and Katzenbach for the purpose of preparing reports for use by counsel. At approximately the same time, a number of issues relating to maintenance were identified as requiring separate analysis by a group more qualified in the subject than those working in CS&M III. This combination led to what was termed CS&M Study IV, a fourth task force known variously as the maintenance or FE task force and the Service Practices Group. Questions dealing peculiarly with the pending litigation were assigned elsewhere and the task force dealt primarily with maintenance related issues.

24/ Id.

25/ Paragraphs 9 and 10 of the Katzenbach affidavit state as follows:

> 9. As a result of discussions with Mr. Turner, Mr. Marshall and others over a period of time, a number of questions and issues common to the Department's action and the other litigation had been identified as requiring substantial analysis by counsel in preparation for IBM's defense. One such issue involved the general subject of maintenance, a subject not addressed in detail by the CS&M III task force. To assist counsel in dealing with these questions and issues, a fourth task force was formed, subsequently known as CS&M IV. Initially I contemplated that the work of the fourth task force would encompass not only maintenance but the other subjects as well. That soon proved impractical due to the scope of the maintenance questions and the volume of work they required. As a result, the task force focused upon maintenance related issues (becoming known as the maintenance or FE task force) and the other subjects were referred elsewhere for analysis.

10. I assigned a senior IBM attorney, Mr. D. A. Evangelista, to direct the efforts of the fourth task force on a day-to-day basis with the assistance of Mr. McKinney, another senior attorney from IBM's field engineering division. I generally directed the work of the task force, with the assistance of Messrs. Bullen and Faw, through a Steering Committee. Mr. Turner also reviewed its work with me and provided additional guidance. The information developed, and furnished to counsel by the task force enabled us to formulate and recommend certain changes in IBM's maintenance policies and ultimately resulted in revisions to IBM's forms of contracts. The work of the group was necessary and was utilized both in connection with the preparation for the defense of the pending litigation and in the revision of IBM's policies and contracts.

26/ PX-73, which is an excerpt from the Sturges deposition (p. 276, line 1 to p. 285, line 25), is reproduced at Tab 7 of IBM's Appendix to its Memorandum in Response to Plaintiff's Motion to Set Aside and Amend the Final Report of Special Masters After Evidentiary Hearing of October 24 and 26, 1973.

27/ Id. at p. 277 L. 18 to p. 278 L. 5.

28/ Tr. 302 L. 7 to 307 L. 3: [Messrs. Woghin and Carlson are counsel for plaintiff; Messrs. Waygood and Taylor are counsel for defendant].

Mr. WOGHIN: I would just like to bring one item to the attention of the Court and Mr. Waygood. In our previous submission to IBM we had included all the documents and deposition testimony from the various witnesses that we planned to use. What we did not include at that time was the statement which was taken out of one of the previous depositions by Mr. Thomas Barr, attorney for IBM. The reason that that was not included was that it did not fall into the same category as the other documents that we included. I just bring it to IBM's attention that it is offered to be marked as Exhibit No. 47, the very first document in the second volume.

MR. WAYGOOD: I would have to object to that, your Honor. I have it before me now for the first time, I have not read it, but I think I can object anyhow. I don't think that statements of counsel in connection with a deposition bear on matters that we are considering here or are probative, with all due respect to Mr. Barr.

MR. CARLSON: With all due respect to Mr. Waygood, we have six affidavits by counsel already offered for the record, and I think statements of counsel are pertinent to the issue or may be pertinent to the issue before the Court.

MR. WAYGOOD: I think there is a difference between sworn testimony and statements in the course of a deposition.

MASTER MEYER: The deposition was under oath, was it not?

MR. WAYGOOD: Yes, but it was not of Mr. Barr.

MR. TAYLOR: This is Mr. Barr acting as counsel for the defendant during deposition.

MASTER McLAUGHLIN: Are you suggesting that statements by counsel made during a deposition do not bind his client? Is that your argument?

MR. WAYGOOD: I really had not reached in my own mind that point. Perhaps I could finish reading this and then understand the purpose for which it is offered and then respond to that.

MR. WOGHIN: I would just like to conclude by saying --

MASTER McLAUGHLIN: Why don't we let him read that.

MASTER MEYER: He cannot listen to you and read that at the same time.

MR. WOGHIN: I am sorry.

MR. WAYGOOD: May I understand at this point the purpose for which the plaintiff is offering the statement of Mr. Barr.

MR. WOGHIN: The statement is being offered as background for the Masters to put in context the claims that IBM is asserting with respect to CS&M-3 Task Force and CS&M-4 Task Force, and to try and relate those claims to the specific documents, which other documents are being offered and will be offered.

MR. WAYGOOD: I object to the offering and the reception in evidence in this proceeding of this statement, since it is a statement of counsel not under oath and in the course of a deposition which he attended only for a few moments in the very early 1972. I feel compelled to go on and state, in the same respect and with the same weight that this might be accorded, that as the affidavits in this proceeding indicate, and of which I have firsthand knowledge myself, in excess of 106 containers of documents relating to CS&M-3 and -4 were produced and were made available to Control Data Corporation in connection with this litigation and were therefore by proxy in effect under the arrangement with the Department of Justice made available to the Department of Justice, and Control Data selected copies from those 106 cartons of CS&M-3 and -4 documents and those are in the possession of the Department of Justice. As to those documents, those portions of the work done in connection with CS&M-3 and -4 that were not privileged, which has been referred to in the affidavits as implementation work, we did not claim any privilege, we did produce the documents, 106 boxes of them, and that is what Mr. Barr is referring to in this statement.

I think, however, the statement should not be admitted and is not relevant to these proceedings. But to the extent that it is received as background or as anything else, I think it must be understood in the light of my statement and interpreted in the light of my statement.

I think the fact that Mr. Barr's statement is so ambiguous on its face is the vice of trying to put into the record as probative evidence a statement that was made in a different context, at a different time, in a different case.

MR. WOGHIN: I think I should point out for the record that, with respect to the statement by Mr. Barr, although Mr. Barr was at the deposition only for a short time, the record makes it clear that he attended the deposition for a specific purpose, and that was to make this specific statement. Although it may be argued by counsel for the defendant that it is ambiguous, I don't agree with that conclusion.

MASTER MEYER: It has some value as an admission made in the course of the legal proceeding by an attorney who was employed for the purpose of that particular proceeding. It has always, of course, the possibility of being explained. I think perhaps the thing to do would be to permit it to be marked in evidence, and if the Government is willing to agree, it is a shortcut to having to bring Mr. Barr in by agreeing that if Mr. Barr were called he would testify to what Mr. Waygood just said.

MR. CARLSON: No objection to that, your Honor.

MASTER MEYER: All right. Then, with that, that should take care of the matter, and we will pass on it by considering what you just said as stipulated testimony that Mr. Barr would give in explanation of the potential admission contained in the document.

29. Page testified that in or about June, 1967, before he was offered a position with OBP, he participated in a document search that was directed by lawyers. Tr. 51 L. 19 to 53 L. 5. It seems apparent that this was the activity that Mr. McGuire referred to in paragraph 3 of his affidavit. See p. 31 supra.

30. Marshall affidavit ¶ 5 provides:

> 5. At the request of, and pursuant to the advice of, IBM's outside counsel, Cravath, Swaine & Moore, I decided as General Counsel of IBM that it would be necessary to set up a small group of knowledgeable businessmen who would have as their exclusive function assistance to our duties as IBM's legal representatives. As outlined in greater detail below, this involved the essentially inseparable tasks of analysis and advice concerning matters raised in the investigation and in the threatened and later actual litigation, including IBM's current business practices, its future plans, technologies, etc. As the Department's investigation progressed, it also involved work in connection with information and documents demanded by and furnished to the Department.

31. Memorandum in Response to Plaintiff's Motion to Set Aside and Amend the Final Report of Special Masters After Evidentiary Hearing of October 24 and 26, 1973, at 23-25.

32. In addition to the argument cited in note 31 supra, three witnesses at the hearing testified that the Organizational Directories were inaccurate. See Gamrath-Tr. 100-02, Greenfield-Tr. 202-04, cf. Bullen-Tr. 181.

33. This document is a memorandum to Mr. G. B. Beitzel from H. A. Faw, Jr. (the document is signed by Mr. Spector) dated November 27, 1968. The subject of the memo was "Change in Methodology in Share Measurements." Carbon copies were sent to twelve other IBM employees. The memorandum deals with the so-called IBM "Project Yardstick." See note 34 infra.

34. Project Yardstick was discussed in paragraph 10 of the Turner affidavit. Although IBM originally claimed a privilege status for this project, the claim was eventually dropped. Turner affidavit ¶ 10 states as follows:

10. In about May of 1968, in connection with my preparation for continuing conferences with the Department of Justice and the assembly of data requested by it, I became aware that certain IBM businessmen were proposing a further attempt to make more complete and accurate IBM's methods of compiling statistics on EDP installations and orders. This project, I learned, had been given the name "Yardstick". I was naturally aware of the need for accuracy in such statistics and just shortly before that time had written a letter to the Department of Justice in connection with figures based upon clearly erroneous statistics. I, therefore, urged Burke Marshall that any project which could make such statistics more accurate was well worth pursuing from a legal standpoint, as well as from the standpoint of whatever business motivations had originally given rise to the project. Mr. Marshall assigned one of Mr. Faw's assistants, who was also at that time working full time with inside counsel and my firm, to follow the progress of the "Yardstick" project. From time to time during 1968, this individual reported to me, Mr. Marshall, or one of my firm's associates, on the project's progress, and Mr. Marshall, one of my firm's associates or I from time to time advised him concerning specific changes in or refinements to the proposed project which we believed desirable. We also instructed him to convey our advice to the businessmen within IBM who were actually engaged in setting up the new "Yardstick" methods of compiling statistics.

35. The language that defendant objects to is italicized in the excerpts from the masters' report produced below.

Finding 21

Except as the content of the document or the file source from which it was produced, as shown by the listings, otherwise indicates, there is no evidence that the reports emanating from the Office of Business Practices were circulated to people other than members of that office and IBM counsel.

Conclusion III C.

C. Documents generated by the four task forces and the Office of Business Practices are therefore privileged either as work product or as communications between attorney and client unless the content of the document establishes that the purpose of the document was other than litigation or the obtaining of legal advice or unless the content of the document or the file source from which it came, as stated in the listings, establishes that the requisite confidentiality has not been maintained.

Conclusion V

In all cases where such a document went from an IBM employee to an attorney (or his agent), or vice versa, the attorney-client privilege will attach unless the document reflects solely a business judgment (rather than a purpose to obtain legal advice or aid in litigation) and except in those cases where the content of the document or the file source from which obtained, as stated in the listings, establishes that the requisite confidentiality has not been maintained.

ENDORSEMENT

United States of America v. International Business Machines Corp., 69 Civ. 200 (DNE)

IBM's motion pursuant to Local General Rule 9(m) for an order directing reargument on plaintiff's Motion to Set Aside and Amend the Final Report of Special Masters After Evidentiary Hearings of October 24 and 26, 1974, or, in the alternative, for an order pursuant to Fed.R.Civ. P. 52(b), amending the findings and conclusions of this court's opinion of June 27, 1974 is denied.

Local General Rule 9(m), in pertinent part, provides that a party should serve along with its notice of motion for reargument "a memorandum setting forth concisely the matters or controlling decisions which counsel believes the court has overlooked." Counsel for defendant has not tendered any controlling authority which this court has overlooked. With respect to this court's application of the attorney-client privilege (i.e., utilization of the control group theory) and the work product doctrine (i.e., limiting the work product doctrine to materials prepared in anticipation or defense of the specific litigation in which the work product immunity is sought), it should be noted that the court is aware that conflicting authority exists on these points. Nevertheless, the court has thoroughly explored the divergent theories regarding these principles and has concluded that the views expressed in its opinion of June 27, 1974 are correct. Accordingly, the instant motion is denied in all respects.

So ordered.

David N. Edelstein
Chief Judge

Dated: New York, N. Y.
July 17, 1974

U.S. DISTRICT COURT
FILED
JUL 13 1974
S.D. OF N.Y.

JUL 18 1974

#1311

Original

U.S. DISTRICT COURT
FILED
OCT 5 1974
10:30
S.D. OF N.Y.

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

UNITED STATES OF AMERICA,

Plaintiff,

v.

INTERNATIONAL BUSINESS MACHINES CORPORATION,

Defendant.

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69 Civ. 200 (CNF)

OPINION

#41371

EDELSTEIN, Chief Judge:

On April 16, 1973, this court entered an order, designated Special Master Order No. 1, appointing special masters pursuant to Fed. R. Civ. P. 53 for the purpose of making recommendations to the court regarding the validity of claims of privilege asserted by the parties. The history of the masters' proceedings with respect to documents withheld by defendant International Business Machines Corporation (IBM) from production to plaintiff on the basis of claims of attorney-client privilege or attorney-work product immunity pursuant to Fed. R. Civ. P. 26(b)(3) is detailed in this court's opinion of June 27, 1974 and need not be repeated here. As a result of the June 27 decision, the Masters, on July 9, 1974, submitted a Preliminary Report and invited written comments from the parties. Plaintiff, by its letter to the Masters of July 16, indicated that it had no comments. Defendant, on July 16,

submitted its "Comments with Respect to the Preliminary Report of Special Masters". On July 24 the Masters issued a revised "Final Report Re (a) Glossary and (b) Revision of IBM Claims (hereinafter referred to as Final Report). That Report is attached hereto as Appendix A. By motion dated August 5, 1974, IBM moved for an order amending and modifying the Final Report and on August 15 the Government filed a response in opposition to the motion. It is that motion which is the subject of this opinion.

In reviewing the Final Report, the court is guided by two considerations. To the extent that the Final Report is the result of findings and conclusions reached by the court in its June 27 opinion, the Report must be analyzed to assure its conformity to that opinion. To the extent that the Masters have formulated conclusions of law, the Report must be reviewed as to the correctness of the legal propositions asserted.

The Masters' Report

The Masters recommended that:

> 1. IBM furnish to each of us (a) a directory of personnel, other than attorneys, referred to in the documents or a general directory from which such persons can be identified, and (b) a glossary of groups and abbreviations referred to in the documents and not otherwise identified, and that
>
> 2. IBM review the documents in light of the Court's opinion of June 27, 1974 and the categories of not privileged documents set forth below. Documents which survive such review will be resubmitted to the Masters for rulings; documents which do not, are to be furnished to plaintiff without further order of the Master to whom the document has been assigned except that as to documents with respect

to its claim of privilege, IBM may present to the Master a list of such documents setting forth (a) the document number, (b) a statement indicating which category(ies) below the document falls within, and (c) a statement as to why the document is deemed privileged. The Master will then issue a final report, from which appeal may be taken.

The recommended categories of nonprivileged documents as to which attorney-client privilege is claimed, in brief, are as follows:

1. Where the subject of communication is company policy

2. Where the document is not intended primarily for the purpose of securing legal advice

3. Where a reading of the document in question does not reveal a communication of confidential information

4. Where a communication is not intended to remain confidential, including a communication from or to an attorney that is intended for transmission to third parties without legal approval.

With respect to claims of work product immunity, the Masters' guidelines, pursuant to the June 27 opinion, make not-privileged all documents which do not disclose that they were prepared for use in this litigation.

The court's opinion of June 27, 1974 directed the Masters to use the so-called control group theory in determining the validity of IBM's claims of attorney-client privilege. United States v. International Business Machines Corp., at 46, 69 Civ. 200 (S.D.N.Y., June 27, 1974).

Subsequently, the Government submitted a list of persons whom it believes are within the IBM control group. The procedure established by the Masters for applying the control group theory is as follows:

> As to each document resubmitted by IBM in which all of the originator(s), addressee(s) and copyee(s) are not within the IBM control group list submitted by the Government, IBM shall submit one or more affidavits of appropriate IBM official(s) setting forth the factual basis for IBM's claims that the persons not within the Government's list are within the control group.

IBM's Objections

IBM first objects to the procedure recommended by the Masters for the disposition of those documents which fall into the categories of non-privileged material. It argues that "the provision in question implies the absence of a 'final order' for documents not subject to an appeal to this Court." (Defendant's Memorandum in Support of Its Appeal From and Objections to the Final Report of Special Matters Re (a) Glossary and (b) Revision of IBM Claims, hereinafter referred to as Defendant's Memorandum, p. 5). The court sees no such ambiguity in the procedure recommended by the Masters. All documents as to which IBM has claimed privilege have previously been identified and listed. The Masters' Report, if adopted by the court, contains a clear direction that certain of those documents,

i.e., those which do not survive review in light of the Masters' Report, be furnished to plaintiff without further order. Any further order is unnecessary because the Report in itself constitutes a final order as to those documents. It is only as to those documents with respect to which IBM wishes to appeal to the court that further Masters' proceedings and therefore further orders are necessary. Accordingly, defendant's first objection is overruled.

Defendant's second objection to the Masters' procedure involves this court's holding, in its June 27 opinion, that work product immunity will attach only to materials prepared for use in this litigation. IBM complains that:

> Under the Court's June 27 Opinion and the proposed procedure, work product materials generated exclusively in connection with another case, such as Xerox v. IBM, would have to be turned over to the Department of Justice without review by the Court. In view of the Court's and the Department's prior interpretations of the Publicity In Taking Of Evidence Act, that material could then be obtained freely by Xerox's counsel notwithstanding prior orders of this Court preliminarily protecting such material from disclosure . . . .

Defendant's Memorandum, 5.

IBM therefore seeks to protect the confidentiality of any such material produced to the Government in this litigation. In the first instance it should be noted that such material would become a matter of public record only if the Government, having received

from IBM documents as to which work product status has been claimed in another case, sought to use that material at trial or in the course of a deposition. In either case IBM will have ample notice and opportunity at that time to seek protective relief. Similarly should the other party in the litigation for which the material was allegedly prepared seek to discover the documents from the Government, IBM can seek protective relief from the court in that case. Thus, defendant's request here is premature and there is no reason for the court to alter the Masters' recommended procedure.

IBM objects to what it sees as the Masters' implicit adoption of the control group list submitted by the plaintiff. The Masters' recommended procedure, however, in no way confines itself to plaintiff's list. The Masters have provided a mechanism whereby IBM may demonstrate the factual basis for including additional persons in the control group. This is the approach apparently contemplated by Judge Kirkpatrick in City of Philadelphia v. Westinghouse Electric Corp., 210 F. Supp. 483 (E.D. Pa. 1962) and this court sees no reason for believing that the Masters' procedure will not result in a correct application of the control group theory. Therefore, defendant's objection to the Masters' proposed procedure with respect to the application of the control group theory is overruled.

IBM's next objection is to the Masters' first category of non-privileged material, i.e., communications the subject of which is company policy. IBM argues that the phrase "company policy" is ambiguous and should be revised to read "business policy." IBM asserts that "it should be made clear that a lawyer's legal advice about the business of his client (as opposed to business advice about that business) is privileged." Defendant's Memorandum, 12. The court does not disagree with IBM's position that the attorney-client privilege extends to legal but not to business advice; nor does it disagree with defendant's argument that the critical factor in determining whether a document is protected by the attorney-client privilege is whether legal, as opposed to business, advice is sought and given. However, the Masters here are not concerned with the distinction between business advice and legal advice. The Masters' examples of what is included in this category, e.g., sales manuals, administrative forms, industry news letters, make it clear that this category refers not to business advice as defendant suggests but rather to that area commonly known as "company policy", i.e., those general goals and considerations which guide an enterprise in the conduct of its affairs. As a general rule, communications relating to company policy do not meet the requirements of the attorney-client privilege and so are not privileged. The Final Report contains

neither an incorrect statement of law nor an ambiguity on this point. Accordingly, there is no need for the court to modify the Report with respect to this category.

IBM's next objection is to the Masters' guidelines which exclude from the category of privileged material documents which are not intended primarily for the purpose of securing legal advice or which do not reveal a communication of confidential information. For purposes of clarity, the relevant portions of the Final Report are set forth here.

> 2. Where a document is not intended primarily for the purpose of securing legal advice. Zenith Radio Corp. v. Radio Corp of America, 121 F. Supp. 792, 794 (D. Del. 1954). See also, U.S. v. U.S. Shoe Corp., 89 F. Supp. 357, 360; Colton v. U.S., 306 F.2d 633, 638 (2d Cir., 1962); NLRB v. Harvey, 349 F. 2d 900, 905-906 (4th Cir. 1965). This category includes all documents, requesting simultaneous review of a given problem or practice by non-legal as well as legal personnel, cf., U.S. v. Aluminum Co. of America, 193 F. Supp. 251, 253 (N.D.N.Y. 1960). A lawyer's response to any request not intended primarily for the purpose of receiving legal advice will not be deemed confidential or privileged even as to that specifically legal portion of the response since the privilege only applies to a lawyer's communication which would have the effect of revealing a confidential communication from the client. U.S. v. Silverman, 430 F.2d 106, 122 (2nd Cir. 1970).
>
> 3. Where a reading of the document in question does not reveal a communication of confidential information. U.S. v. U.S. Machinery Corp., supra at 360 (privilege does not encompass reports or comments "on information coming from persons outside the corporation or from public documents,

or [which] are summaries of conferences held with or in the presence of outsiders.") See also Colton v. U.S., supra at 639.

The first issue posed by this objection is whether, to be privileged, a communication from a lawyer to a client must reveal a confidential communication from the client to the lawyer. The oft-quoted essential elements of the attorney-client privilege were enunciated by Judge Wyzanski in United States v. United Shoe Machinery Corp., 89 F.Supp. 357, 358 (D. Mass. 1950).

> (1) the asserted holder of the privilege is or sought to become a client;
>
> (2) the person to whom the communication was made (a) is a member of the bar of a court; or his subordinate and (b) in connection with this communication is acting as a lawyer; (3) the communication relates to a fact of which the attorney was informed (a) by his client (b) without the presence of strangers (c) for the purpose of securing primarily either (i) an opinion on law or (ii) legal services or (iii) assistance in some legal proceeding, and not (d) for the purpose of committing a crime or tort; and (4) the privilege has been (a) claimed and (b) not waived by the client. [emphasis added]

It is hornbook law that the purpose for the attorney-client privilege is to encourage the client to make full disclosure to his attorney. McCormick, Evidence (1954) § 92 at 185; Hunt v. Blackburn, 128 U.S. 464, 470 (1888). Thus the focus of the privilege must be on protecting confidential information revealed to the lawyer by the client. Judge Wyzanski clearly recognized this element of the privilege in requirement (3) of his formulation. And in resolving the question of the extent

to which the lawyer's communications to the client are privileged, the courts have focused on the need to protect the confidentiality of what the client revealed to the lawyer.

In compelling an attorney to reveal the identity of a client, the Second Circuit wrote "the authorities are clear that the privilege extends essentially only to the substance of matters communicated to an attorney in professional confidence." Colton v. United States, 306 F.2d 633, 637 (2d Cir. 1962), cert. denied, 371 U.S. 951 (1963). The court in that case also ordered the attorney to produce certain documents, saying "the attorney-client privilege protects only those papers prepared by the client for the purpose of confidential communication to the attorney or by the attorney to record confidential communications, ... [emphasis added] 306 F.2d at 639. The Second Circuit elaborated on this problem in United States v. Silverman, 430 F.2d 106 (2d Cir. 1970), cert. denied, 402 U.S. 953 (1971). In that case the court compelled discovery of that portion of an attorney's report which contained a description of union minutes which were a matter of public record. The court said:

> The privilege as commonly formulated refers to a confidential communication from the client to the attorney. [citations omitted] Wigmore states that the reason for bringing communications from the attorney to the client within the privilege is to prevent adopted admissions or inferences of the tenor of the client's communication. [citation omitted] The purpose of the privilege, the encouragement of full disclosure to the attorney in procuring legal advice, implies that a communication from an

> attorney is not privileged unless it has the effect of revealing a confidential communication from the client to the attorney.

430 F.2d at 122.

This approach was also adopted by Judge Wyzanski in the United Shoe Machinery case. He wrote:

> It follows that in so far as these letters to or from independent lawyers were prepared to solicit or give an opinion on law or legal services, such parts of them are privileged as contain, or have opinions based on information furnished by an officer or employee of the defendant in confidence and without the presence of third persons. [emphasis added]

89 F. Supp. at 359.

IBM has cited a series of cases which assertedly stand for the proposition that all communications made by the attorney to the client are privileged. However, a careful reading of these cases suggests that any more expansive protection is based on the desire to protect confidential communications made by the client to the lawyer. See, e.g., Schwimmer v. United States, 232 F.2d 855, 863 (8th Cir. 1956) ("the protection against disclosure . . . [extends] . . . to the communications made by the attorney to him [the client] related to the confidence."); 8 in 1 Pet Products, Inc. v. Swift & Co., 218 F. Supp. 253 (S.D.N.Y. 1963) ("The law is settled that the advice of counsel based upon the confidential communications of a client is privileged); Georgia-Pacific Plywood v. United States Plywood Corp., 18 F.R.D. 463, 464 (S.D.N.Y. 1956)

("Since communications by the attorney to the client might reveal the substance of a client's communication they are also within the privilege"). In light of the clear guidance from the Second Circuit on this matter and because the approach recommended by the Masters coincides with the purpose of the attorney-client privilege, this court is constrained to reject defendant's formulation of the attorney-client privilege as it applies to communications from lawyers to their clients. This court will abide by the view that such communications are privileged only to the extent that they reveal confidential information communicated by the client to the lawyer. Accordingly, the proper focus of the Masters' inquiry must be whether or not the document as to which privilege is claimed can be said to reveal such a communication.

IBM also objects to the Masters' recommendation that no protection be afforded a document not intended primarily for the purpose of securing legal advice. One of the essential elements of the attorney-client privilege is that the attorney be acting as attorney, that the communication be made for the purpose of securing legal services. It has been recognized, and this court does not dispute, that in the process of giving legal advice, an attorney may incorporate what Judge Wyzanski called "relevant nonlegal considerations" without losing the privilege of nondisclosure. See United States v. United Shoe Machinery Corp., 89 F. Supp. 357 (D. Mass. 1950). However,

this does not mean that the privilege attaches to incidental legal advice given by an attorney acting outside the scope of his role as attorney, "'Acting as a lawyer' encompasses the whole orbit of legal functions. When he acts as an advisor, the attorney must give predominantly legal advice to retain his client's privilege of non-disclosure, not solely, or even largely, business advice." Zenith Radio Corp. v. Radio Corp. of America, 121 F. Supp. 792, 794 (D. Del. 1954). Thus, while a document in appropriate circumstances may be privileged only in part, the Masters are correct in recommending that in the case where a lawyer responds to a request not made primarily for the purpose of securing legal advice, no privilege attaches to any part of the document.

In the category of documents not intended primarily for the purpose of securing legal advice, the Masters have included documents requesting simultaneous review of a given problem by non-legal as well as legal personnel. IBM argues that "In a situation where several persons, including a lawyer, are asked for advice upon a particular course of conduct, the communication, as far as the lawyer is concerned, is one seeking legal advice, and thus his response would be privileged. . . ." Defendant's Memorandum, 17. In support of its position, IBM relies on United States v. Aluminum Company of America, 193 F. Supp. 251 (S.D.N.Y. 1960), a case in which the court

suggested that the attorney-client privilege attached to the original of a document sent to corporate counsel but did not protect a copy of that document sent to the president of the corporation in response to his request for information.

To assert, as IBM does, that what is essentially a single document can be considered "primarily legal" as to one copy though admittedly not as to another is to distort the proper focus of the inquiry. The question of whether a document was prepared primarily to seek legal advice must be resolved by examining the circumstances under which the document was prepared. If the document was prepared for purposes of simultaneous review by legal and non-legal personnel, it cannot be said that the primary purpose of the document is to secure legal advice. Therefore, one of the critical elements of the attorney-client privilege is absent at the outset. The aspect which deprives the document of protection is inherent in the circumstances of its creation and clearly is not remedied by the later disposition of any copy of the document. The Masters are correct in asserting that no protection attaches to a document prepared for simultaneous review by legal and non-legal personnel. Defendant's objection is overruled.

Conclusion

Having reviewed the Final Report and the defendant's objections thereto, the court has concluded that the legal propositions asserted by the Masters are correct. Therefore, the recommendations contained in the Final Report of Special Masters Re (a) Glossary and (b) Revision of IBM Claims (July 24, 1974) are accepted. Defendant is directed to comply with the procedures set forth in the Final Report for reviewing the documents as to which it has claimed privilege and submitting them to plaintiff or the Masters as appropriate.

So ordered.

David N. Edelstein
Chief Judge

Dated: New York, N. Y.
October 5, 1974

COPY

U.S. DISTRICT COURT
FILED
OCT 1974
S.D. N.Y.

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

UNITED STATES OF AMERICA,

Plaintiff,

-v-

INTERNATIONAL BUSINESS MACHINES CORPORATION,

Defendant.

#41276

69 Civ. 200 (DNE)

ADDENDUM TO OPINION OF October 5, 1974

EDELSTEIN, Chief Judge:

On page 10 of its opinion of October 5, 1974 this court quoted language from United States v. Silverman, 430 F.2d 106, 122 (2d Cir. 1970). In a subsequent opinion, cited by neither party, the Second Circuit Court of Appeals, on rehearing, deleted the quoted language, United States v. Silverman, 439 F.2d 1198 (2d Cir. 1970), but found that the attorney's report at issue in the original opinion was nevertheless properly received in evidence. Thus the deletion has no substantive effect on this court's disposition of defendant's motion. The law remains clear that a communication from an attorney to a client is privileged only insofar as it has the effect of revealing a confidential communication from the client.

In light of the foregoing, this court's opinion of October 5, 1974 is modified as follows: That portion of the opinion,

starting on page 10, which begins with "The Second Circuit elaborated on this problem in United States v. Silverman . . ." and extends through the end of the Silverman quotation on page 11 is deleted. In its place the following language is inserted: "The Second Circuit again confronted this problem in United States v. Silverman, 430 F.2d 106, modified, 439 F.2d 1198 (2d Cir. 1970), cert. denied, 402 U.S. 953 (1971). In that case the court compelled discovery of that portion of an attorney's report which contained a description of union minutes which were a matter of public record, saying that the portion of the attorney's report in question 'did not reveal a confidential communication.' 430 F.2d at 122."

This court's opinion of October 5, 1974 is revised as set forth above. So ordered.

Dated: New York, N. Y.
October 15, 1974

/S/ David N. Edelstein

David N. Edelstein

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

U.S. DISTRICT COURT
FILED
MAY 22 1975
D. OF N.Y.

UNITED STATES OF AMERICA,

Plaintiff,

-against-

INTERNATIONAL BUSINESS MACHINES CORPORATION,

Defendant.

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69 Civ 200 (DNE)

PRETRIAL ORDER NO. 23

Subject to the further order of this court, IT IS HEREBY ORDERED THAT

the pretrial record in this case shall be deemed to be the pretrial order for all intents and purposes to the extent, FIRST, that such record recites both the action taken at the pretrial conferences or pursuant to matters there considered, including any admissions or agreements by or between the parties, and the amendments allowed to the pleadings, and, SECOND, to the extent that such record limits the issues for trial to those not disposed of by admissions or agreements by or between the parties.

David N. Edelstein
Chief Judge

Dated: New York, New York
May 22, 1975

MICROFILM
MAY 22 1975

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

MAR 11 12 00 PM '76

UNITED STATES OF AMERICA,

Plaintiff,

-against-

INTERNATIONAL BUSINESS MACHINES CORPORATION,

Defendant.

69 Civ. 200 (DNE)

OPINION

4/6/76

EDELSTEIN, Chief Judge:

On April 16, 1973, this court entered an order, designated Special Master Order No. 1, appointing special masters pursuant to Fed.R.Civ.P. 53 for the purpose of making recommendations to the court regarding the validity of claims of privilege asserted by the parties. The history of the masters' proceedings with respect to documents withheld by defendant International Business Machines Corporation (IBM) from production to plaintiff on the basis of claims of attorney-client privilege or work product immunity is detailed in this court's opinions of June 27, 1974, 66 F.R.D. 154 (S.D.N.Y. 1974), and of October 5, 1974, 66 F.R.D. 206 (S.D.N.Y. 1974).

The masters have now completed their review of IBM documents for which claims of attorney-client privilege and work product immunity have been asserted and have filed with the

court their final reports with regard to these documents. Pursuant to Special Master Order No. 12 IBM has appealed the rulings of the masters as to a substantial number of the documents which the masters ruled non-privileged or lacking work product immunity. [1] At a conference held February 18, 1976, plaintiff's counsel indicated that about 26,362 documents were presented to the masters following the October 5, 1974 opinion. Of this total 2173 were held privileged. Of the remaining documents held not privileged, the rulings on about 90 per cent or about 21,800 documents have been appealed to the court. Tr. at 12700 - 701.

Without speaking to the appeal of those documents not addressed by this opinion, it is clear that the appeal of many of these 21,800 documents is meritless. It is an attempt to relitigate issues already decided by this court in its opinions of June 27, 1974 and October 5, 1974. These documents have been described by IBM to be of the following types:

> (1) "Work product material prepared in anticipation of litigation or for trial in other litigation not related to United States v. IBM."

In its June 27, 1974 opinion this court wrote that "for something to be considered 'trial preparation material' (work product) under Fed.R.Civ.P.26(b)(3) it must be prepared 'in anticipation of litigation or for trial' in the case in which the special immunity accorded to such material is sought." 66 F.R.D. 154, 178 (S.D.N.Y. 1974). This determination is embodied in the review guidelines set forth in the Final Report of Special Masters Re: (a) Glossary and (b) Revision of IBM

Claims which was adopted by this court in its opinion of October 5, 1974. Documents in this category have not been prepared for use in this action; as such they do not merit further consideration by this court.

(2) "Internal instructions/suggestions to seek legal advice."

In its October 5, 1974 opinion this court cites the essential elements of the attorney-client privilege. Among these crucial elements is "(3) the communication relates to a fact of which the attorney was informed (a) by his client (b) without the presence of strangers (c) for the purpose of securing primarily either (i) an opinion on law or (ii) legal services or (iii) assistance in some legal proceeding, and not (d) for the purpose of committing a crime or tort . . . ." 66 F.R.D. at 211 (emphasis omitted). The court goes on to observe that the purpose of the attorney-client privilege is to encourage the client to make full disclosure to his attorney and cites the Second Circuit that "'the authorities are clear that the privilege extends essentially only to the substance of matters communicated to an attorney in professional confidence.' Colton v. United States, 306 F.2d 633, 637 (2d Cir. 1962), cert. denied, 371 U.S. 951, 83 S. Ct. 505, 9 L.Ed.2d 499 (1963)." Since the privilege exists to protect a disclosure by the client to the attorney, internal instructions or suggestions to seek legal advice clearly fall outside the privilege. Accordingly, documents of this type will not be reviewed by the court.

(3) "Internal communications transmitting information for the purpose of obtaining legal advice."

internal communications will not be reviewed by the court.

(4) "Internal restatement of counsel's request for information and/or internal communications requesting information for counsel's use in rendering legal advice."

The purpose of the attorney-client privilege is to protect the communications of the client and not the requests or advice of the attorney as this court emphasized in its October 5, 1974 opinion where it rejected defendant's objections to the Masters' Report therein adopted. For this reason and for the reasons set forth under category (2) above, such internal restatements of counsel's requests for information are not within the privilege.

(5) "Internal restatements of attorney's legal advice and/or internal documents which reflect or reveal such advice."

For the reasons set forth under categories (2) and (4) above, documents in this category are not privileged.

(6) "Documents which show that specific activities were reviewed with attorneys, including restatements of requests for legal advice, documents which reveal that specific information was given to attorneys for legal review, and statements of facts relating to litigation or to legal issues by an attorney to other attorneys or to businessmen (stating reports) so that the businessman or attorneys would have sufficient background information to understand the attorney's legal advice."

For the reasons set forth under categories (2) and (4) above, documents in this category are not privileged.

All documents listed by defendant under the foregoing categories in its masters appeals motions must be produced to plaintiff within 15 days from the date of this opinion with the

following exception related to multiple listings or duplicate documents.

IBM need not at this time produce any documents which are also now listed in categories other than those six disposed of herein or which are duplicates of documents now listed in such other remaining categories. However, IBM must submit to the court a list of those documents so withheld and a cross-reference to the duplicates of these documents found in the categories for which review is reserved. This list and cross-reference is due to the court within 15 days of the date of this opinion.

IBM has characterized another group of documents as follows:

> "Work product material prepared in anticipation of litigation or for trial in antitrust cases involving substantially the same facts or issues as United States v. IBM, or in anticipation of trial or for use in both United States v. IBM and in other antitrust cases involving substantially the same facts or issues as United States v. IBM."

The court's position on work product documents has been restated earlier in this opinion. However, it should be further noted that the work product guideline in the Masters' Report adopted by the court in its October 5, 1974 opinion states, "All documents which do not disclose that they were prepared for use in this litigation will not be privileged as work-product."

Given the court's guidelines on work product, IBM's description of this group of documents reveals that it may be appealing documents herein described which do not meet the court's limitations on work product documents. Therefore, IBM is ordered to review all the documents listed in its motions under this description and eliminate from this court's review any documents which were "prepared in anticipation of litigation or for trial in antitrust cases involving substantially the same facts or issues as United States v. IBM." All documents from this category so eliminated by IBM's review must be producted to plaintiff within 15 days of the date of this opinion except to the extent they may be governed by the provisions of this order set forth above governing the non-production of multiple listings or duplicate documents.

Within 15 days from the date of this opinion IBM must submit to the court a list of those documents eliminated by its review of this category; the list must indicate the Special Master's report governing these documents, under which IBM motion their review was appealed, and under which file source they were listed. If this list is not received by the court within 15 days from the date of this opinion, all documents in this category will be ordered produced to plaintiff.

Following the production of documents pursuant to this order, the court will allow plaintiff to compare any of the documents produced by IBM with the copies of those documents retained by the court.

So ordered.

David N. Edelstein
Chief Judge

Dated: New York, New York
May 14, 1976

FOOTNOTE

1/ Defendant's masters appeals motions are as follows: Defendant's Motion to Set Aside or Amend the Final Report of Special Master Meyer Pursuant to Special Master Order 6 as Amended by Special Master Order 17 (dated August 11, 1975); Defendant's Motion to Set Aside or Amend the Final Report of Special Master Meyer Pursuant to Special Master Order No. 11, as Amended by Special Master Order No. 18 (dated December 23, 1975); Defendant's Motion to Set Aside or Amend the Final Report of Special Master Meyer Pursuant to Special Master Order No. 19 (dated December 24, 1975); Defendant's Motion to Set Aside or Amend the Final Report of Special Master McLaughlin, dated January 20, 1976 and the three Final Reports of Special Master Climenko, dated January 21, 1976 (dated January 29, 1976); Defendant's Motion to Set Aside or Amend the four Final Reports of Special Master McLaughlin, dated January 23, January 26 and January 27, 1976 (dated February 4, 1976); Defendant's Motion to Set Aside or Amend the Final Report of Special Master McLaughlin Pursuant to Special Master Order No. 20, dated January 28, 1976 (dated February 13, 1976).

mkz

UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF NEW YORK

- x

UNITED STATES OF AMERICA, :

-against- :

INTERNATIONAL BUSINESS MACHINES CORPORATION, : 69 Civ. 200

Defendant. :

- x

February 23, 1972
Room 518
2:15 p.m.

Before:

HON. DAVID N. EDELSTEIN,

Chief Judge.

Appearances:

RAYMOND M. CARLSON, ESQ.
Attorney, Anti-Trust Division
Department of Justice,
Washington, D. C.

JOSEPH H. WIDMAR, ESQ.,
Attorney, Anti-Trust Division
Department of Justice
-and-
GRANT G. MOY, JR., ESQ.,
Attorney, Anti-Trust Division
Department of Justice

Appearances (Continued):

MESSRS. CRAVATH, SWAINE & MOORE
Attorneys for Defendant IBM

By: BRUCE BROMLEY, ESQ
GEORGE B. TURNER, ESQ.
THOMAS D. BARR, ESQ. and
F. A. O. SCHWARZ, JR., ESQ.,
of Counsel

- - -

THE COURT: I have called this conference in the hope that we could talk or prepare for an agenda.

I seem to recall that at our last and very first conference the government indicated some eagerness and a desire to move with dispatch, and I thought that this would be a good opportunity to explore what the government proposes to do and what steps are contemplated in the very near future.

MR. CARLSON: Shall I go ahead, your Honor?

My name is Carlson, with the Department of Justice, Anti-Trust Division.

May it please the Court, does the Court wish me to give a short synopsis of where I think we stand and where I think we can go from here?

THE COURT: Please do. I think that might be useful.

MR. CARLSON: You will recall that we advised the Court that the case was approximately three years old in point of time since the filing.

Our discovery to date has consisted of a major Rule 34 motion, in the context of which compliance, at least in part, was undertaken, and again in part accomplished by reason of a similar production under a motion made by Control Data Corporation in the private case pending in Minneapolis.

In essence, what happened was that Control Data reviewed some 15 or 20 million records that were made available to it under the court order and made available to us as their selection from that, and we had sent a team to IBM and the team had decided it was not feasible, or at least it was better conservation of government money at that time to accept the so-called fall-out from the Control Data Corporation's examination of those records.

I think it is fair to say that the production for Control Data covered several months and spanned a

period, I think 1962 to about 1970, through about 1970 -- maybe into 1971, I am not quite sure of that, but it involved a great many documents, some half a million of which have been delivered into government hands in selective form and in microfilm form, and they are in the government's possession with the exception of quite a number of documents that would have been under microfilm but have been blocked out from the microfilm on the claims of privilege by IBM; and therein lies one of the areas of controversy that I will mention a little later, so far as the parties are concerned.

Again on that same subject of production, it is my understanding that just this past week there has been a hearing on some 40,000 documents or thereabouts, withheld from that production -- again on the ground of privilege, from C.D. -- Control Data, which, of course, are not available to us yet, where the grounds of privilege were asserted in the Minneapolis court.

So, in effect, I would describe our production under that motion as essentially completed, as we view it, except for the resolution of several very major questions of privilege, and the fact that we are taking the fall-out from the Control Data discovery as it was filed several years ago.

The government also filed a series -- a first set of interrogatories calling primarily for matters of leads and positions of persons at various levels in IBM and other basic information needed in the digestion of the documents and the preparation of the documents for further examination and understanding of the weight, of the evidentiary weight of the documents, that is, who had authored them and where they fall within the IBM plexus.

That, as I understand it, as our records would indicate, that set of interrogatories has been essentially complied with.

Defendant directed interrogatories to us, again early in the game here, I think some 18 months ago. Those interrogatories were in part answered and in part -- in one major respect came before Judge Bryan on our motion to quash a part of the interrogatories which called for an inventory of various kinds of computer devices in the government.

Judge Bryant permitted the interrogatories to go ahead, and the answers to those interrogatories have been in the process of preparation since the time of the judge's order on that subject, and I believe there are 55 or so major government agencies, and of those 55, 51 or 52 have responded, and the others, which are the

Post Office Department and the State Department, and the big one, which is the Department of Defense, which is a tremendous user of data processing equipment, are still in progress, and our estimate from the various parts of the Defense Department, as communicated to counsel for the defendant, is that that inventory will be completed in about August of this year -- August of 1972.

There is also the Rule 34 motion which counsel perhaps may take issue with me, but which was directed to us for the production of all parts, wherever located, which I would characterize as calling for virtually every document in the government so far as data processing suppliers, equipment, whatever -- anything relating to data processing.

I think it is fair to say, at least, from my reading of what is encompassed within the Rule 34 motion, and the Rule 34 motion is perhaps about 18 months old.

Thereafter, the government filed a response, as the rules call for, which was in effect an attempt to take the first bite, as I understand the response, on this motion.

After many months of negotiating and interviewing and attempting to find a way to accomplish a compliance with that Rule 34 motion -- and I think about

the time Mr. Widmar and I came into the case, in September, 1971 -- it was resolved, at least from the Government's standpoint, that the response which had been filed and the modus operandi that had been hopefully adopted to accomplish compliance with that motion was inoperable, it was our view, and I must say that counsel for the other side disagrees with us.

It was our view that the motion could not be complied with on the basis of the response, and that some attempt should be made by the parties to have a closed-end motion at the time, the government agencies involved, and the subject matter, so that we should have some idea when, if ever, on this motion the question of discovery might be resolved; and that matter I think is sharply at issue between us now.

As I read counsel for IBM's last letter, they view the status of that motion as one with which we either comply or take to your Honor in the form of a motion of some kind or other.

The government has taken no steps, because we came to that point after your Honor called today's conference.

We thought it advisable and preferred to bring to your Honor the report on where we stand before

we precipitated anything, either additional meetings or whatever might be the best way to undertake it to come to grips with that dispute.

We thought it would be better to get your Honor's ideas on scheduling and what techniques would best be suited among us to resolving this very difficult problem, if the case is going to be tried in the foreseeable future.

Just going back for a moment, the one major problem of our preparation for trial -- and I would say it was in the government's affidavit that was submitted in connection with our renewed motion for a Rule 2 judge -- the government's status of preparation is such that it has reduced its initial documentary case to perhaps a 25,000 document area of materials from which it is reading, selecting and preparing, separating by company and person, looking to a deposition program which has never been on the drawing board as yet between us, as I understand it; and that part of the reading and selection is on the way but is still several months away from completion as to the 25,000 documents which in effect were boiled down from the half a million or so that came out of the Control Data selection of documents and our acceptance of some 173 microfilms of documents from that

selection.

Missing from that group of documents, and of course affecting our preparation considerably, are the some 40,000 privileged documents -- perhaps more, because of the blacked-out documents which we have not yet had access to; and I mention that at this point because that is a problem which we all -- all counsel would have to solve between ourselves and bring to your Honor at some appropriate time, depending on what your wishes are at the moment.

So that, as I look forward, and as we on the government's side look forward from this point of time, and just sort of thinking out loud, as we have been talking about it, we think that there is need for an immediate resolution between counsel, and perhaps with the Court's assistance on the Rule 34 motion made by the defendant for documents from government files.

There are some serious privilege questions involved in the production of documents to the government through Control Data.

There are also some continuing problems in that regard in that I am advised that since Control Data is under Judge Neville's order, with counsel's concurrence in that Court, Control Data is expecting some million

documents a month, starting last November and going through next November.

There are some 12 million additional documents; there will again be a fall-out which I understand Mr. Barr stipulated on the record one day last week that the government should have access to that fall-out.

We had asked Control Data for access to those documents, rather than our going ahead on it, but, as I understand it, there will be some 60-day lag on privilege questions which arose in the context of that inspection of that additional 12 million documents, so that there will be continuing over the next eight or ten or twelve months production of documents both to Control Data in the Minneapolis suit and to the government as a fall-out thereof from the agreement and from our request of Control Data for their selection of documents and for the lag documents that may be caught up in any privilege claims that IBM may advance.

So looking forward, we see, even without any additional requests by the government for documents of any kind, or without any interrogatories or any other kind of discovery on the part of the government, we see a period of perhaps eight to ten months during which documents will be produced and we on the government staff

will be reviewing substantial amounts of documents -- many, many thousands of documents which are at least deemed by Control Data to be pertinent, in their view, to this action.

We would hope, and we have been looking forward in terms, that is, we, the government, have been looking forward in our preparation in terms of proposing to your Honor a beginning deposition schedule for perhaps mid-summer of this summer for what we would regard as the first step in the government's deposition schedule, which will be to obtain the documents and records of the various corporations which we claim -- we, on the part of the government claim are part of the market for general purpose digital computers that we will claim to your Honor is the market here -- that is not quite the exact wording -- that we will present to your Honor a description of the general market.

There are six or seven firms in that market that have not been the subject of subpoena or visitation, with the exception of RCA Corporation which responded by letter as if we had subpoenaed it to our request for documents at the time that it went out of business.

We were fearful that because it was going out of business that its documents and records would

disappear, and we asked them to produce the documents in response to a letter, and they agreed to do so.

So we have been one step in that six or seven-step discovery program.

We would hope to accomplish most or all of the remainder of that discovery program during the period that we are reading and digesting the documents that we now have, and those which we are receiving during the coming summer, looking to a start, at least from the government's standpoint, of a substantive discovery program in the deposition area this Fall, and we expect to have most of the IBM documents that we have coming in to us from Control Data and most that we now have in our possession read, digested and put into the kind of order that we can use them in the area of substantive interrogation of IBM and third-party witnesses which we would expect either to present at the trial or which we would expect to present in deposition exerpted form as a part of our trial presentation.

We really have not been able to look forward far enough to give your Honor an idea of a trial date at this time because there are so many things to be accomplished, and there remains the subject of the shadow of the dispute on IBM's motion between us; so I think we

also sought to propose to your Honor in the substance of the case several thoughts that we had as to the government's ideas as to how discovery might be contained somewhat here, one being our definition, from the government's standpoint, at least tentatively, of the market it intended to try; and our request of the Court that IBM come forward with its definition and its position as to that market, or the areas of exploration that it would require in order to take issue with that market, if it intends to take issue with that market, that we propose and explore a cut-off date -- at least, if not a firm cut-off date, a cut-off date going back beyond which specific subject matters only would be explored and perhaps with good cause.

I think that will take some negotiating with counsel, perhaps, and maybe some help of your Honor in directing the focus of the subject matter prior to the cut-off date.

We were thinking purely in terms of 1961, January 1961, or something in that area of time.

Then we had some areas already proposed as between us where a stipulation might be possible. But I must say to your Honor -- and perhaps this is my fault, for not proceeding on that course -- that we have under-

taken no stipulation conferences with counsel, substantive stipulation conferences with counsel on matters of fact as of this date -- at least not that have been productive of any results.

So I wonder if that gives your Honor an idea of where I think the government is and what the government's feeling about the lawsuit is as of this moment.

MR. BARR: Your Honor, perhaps I can go through pretty much in the same order that Mr. Carlson has and comment on the various remarks that he has made -- hopefully, that will be the most useful way for the Court to hear it.

Starting first, then, with the government's Rule 34 document demand, I think the essence of that is that we have been producing documents for the Department through Control Data Corporation or directly to the Department for about two years, and we have to date or will by September of this year, have produced about 35 to 40 million pieces of paper which CDC or the Department, or CDC acting for the Department has gone through and selected those documents which they wish to have copied.

And when Mr. Carlson speaks of the "fall-out," he means documents that Control Data has selected for copying and copies have been furnished either by

MR. BARR: May I call the particular rule to your Honor's attention?

THE COURT: You may.

MR. BARR: Your Honor, I have in mind particularly rule 602 of the Federal Rules which deals with lack of personal knowledge. I submit to the Court that these documents are on quite a different footing than the documents produced by IBM. This witness does not have personal knowledge of the documents. I would also call to your Honor's attention the hearsay rule, and also Rule 803(6) which is the statement of what is now the business records rule, as I understand it, and I would submit, your Honor, that the examination has not in any way satisfied that exception.

THE COURT: Well, Mr. Barr, you have taken a step without my authority, without my ruling. I have not indicated my decision about whether your consent, together with Mr. Carlson's about adopting the new rules is agreeable to me. That's the first point that I would like to call to your attention, and which you seem to have ignored very cavalierly.

MR. BARR: Your Honor, it can hardly be cavalier. I must know now, because the rule --

THE COURT: Excuse me, just a moment.

The second is even if I adopt the rules I am not at all certain that they apply to this witness, and I am not at all certain that the new rules should be adopted here, and that the rules should be changed in midstream, keeping in mind that Mr. McDonald has practically testified under his entire direct examination under the old rules.

Now, that presents still another problem.

MR. BARR: It does, your Honor.

THE COURT: Now, to answer your question, which you did not attempt to find out about yesterday, I will apply the new rules. But I am not at all certain that I will apply the new rules to this witness' testimony either as to his previous direct or to cross-examination, because it would appear to me that to do so would mean that we would have to assume the direct testimony of this witness de novo.

Now, give that some thought and we will discuss this later. Your arguments have been made, your objections have been noted, and my ruling still stands the same. Your objection is overruled.

MR. BARR: Well --

THE COURT: Now there is no further reason for colloquy, Mr. Barr. You have made your record.

MR. BARR: Your Honor, I am not trying to engage in colloquy.

THE COURT: You have made your record, now let's proceed.

MR. BARR: I am not sure I have, your Honor, and may I reflect upon that and ask your Honor, for the remainder of this witness, am I to assume that there is no decision one way or the other with respect to --

THE COURT: Well, yes, if you press for an answer without any need for a conference, my decision is that this witness' testimony should proceed under the old rule where it started.

MR. BARR: Very well, your Honor.

THE COURT: Because it would seem to me that the government, or for that matter anybody else involved here, would be obtaining a very singular advantage, if there are any advantages and distinctions, between the old rules and the new rules, because I have already pointed out that the major portion of this witness' direct testimony and document identification came in under the old rules.

Now, I don't know whether that worked against the government or for the government, nor am I interested in that particular point. I am interested, however, to

the extent that the old rules have been applied substantially to this witness' testimony, that they shall continue until his testimony is concluded.

MR. BARR: Well, your Honor, the message, the letter that I sent to the Court with respect to the new rules I believe took the position, and I think I still take that position, that the new rules do not work change. If there is some change being worked that I did not perceive, then I think we have a different problem and perhaps we ought to reflect some more on they, your Honor.

THE COURT: Mr. Barr, I have made my ruling. If I am in error, that error is incorporated in the record.

MR. BARR: Your Honor, it's my sole interest at this point in trying to insure that there is no error.

THE COURT: And it's my sole interest that no error occur and I don't think I am in error.

MR. BARR: That is my interest too, your Honor.

THE COURT: Well, then our interests are mutual.

MR. BARR: Yes, sir, I hope they are.

THE COURT: Well, I hope so too.

end 5B

able to reach a stipulation, at least as to those portions.

THE COURT: He is offering you a stipulation right now to stipulate everything in the Telex record without the stipulations that are incorporated in the record.

MR. BARR: I added with only those portions of the stipulations that he will accept.

Exhibit L

THE COURT: A counter offer is --

MR. CARLSON: That is acceptable and accepted, and I will specify what portions of the stipulations we will accept.

MR. BARR: Fine.

THE COURT: Then do I also understand that, if you find no stipulations that you can accept, nevertheless you will stipulate to the record with the exception of stipulations incorporated in the record?

MR. CARLSON: You did understand me correctly, your Honor. I do understand that to be the case.

MR. BARR: And you understand me also correctly, and the only statement I make with respect to that is that I am prepared to trust Mr. Carlson's good faith to go through those stipulations and admit the ones he does truly admit.

THE COURT: Then, in any event, I can expect at the very least the stipulation of the Telex record, of everything contained in that record with the possible exception of all the stipulations entered on the record being excluded or some being included. Is that correct?

MR. CARLSON: My colleague reminds me that, when we are talking about the record, we are also talking perhaps about the findings of fact.

THE COURT: Excluding that, of course.

MR. CARLSON: Yes. The answer is that, excluding that, that is correct.

THE COURT: I'm sure I don't have to remind you, because I've told you repeatedly, that your stipulations will be considered by me as your agreements but will not be binding upon me at all.

And therefore you also know, as I've explained to you in the past, why I have ordered very few so ordered, very few of your stipulations.

MR. CARLSON: Yes. I should indicate to your Honor on the record that I do not now have a conclusion nevertheless as to how much trial time this will save. I shall address myself to that problem immediately.

THE COURT: You go ahead, and don't worry about the saving of trial time. See if you can get a stipulation. Then, at some later time, you can tell me exactly how much trial time this has saved.

MR. CARLSON: We thought we would end the day on a happy note, your Honor. The glossary has been submitted to your Honor. I don't have the submission date. Yes, I do. The letter enclosing the glossary to the Court was dated July 17, 1975 and it indicates that the document that was forwarded as the glossary is in fact the subject of an agreement of the parties and will be moved into the record,

of document?

A I don't know that it has been distributed.

Q When was the first time that you saw this document?

A I saw this a week ago last Monday, I think, or possibly last Monday. It was being -- the circumstances?

Q Yes.

A It was being used by the group head of the Industrial Products Group to explain to one of our associates in Europe something about the organization and the product lines of Industrial.

Q And prior to that time had you seen it at all?

A I don't think I had seen it before that.

Q Have you read the document through entirely?

A Not in complete detail.

MR. BOIES: Your Honor, I would object to the admissibility of this document on the grounds that no foundation has been laid.

THE COURT: Well, perhaps this is as a good a time as any to make an announcement in this case.

I think we've got to move past the time where we engage in long and extended discussion and dialogue and argument about admissibility and move to a long standing and well documented proposition contained in textbooks like in Moore, like in Miller, and like in many of the case law

Exhibit 39

in this district and others.

Accordingly, the Court will admit provisionally all evidence offered which is objected to, reserving all questions of admissibility until all the evidence is in, at which time the parties must specify what portions of the evidence are considered admissible and the reasons therefor.

You may proceed. Received.

(Plaintiff's Exhibit 316 for identification received in evidence.)

xx

MR. BARR: Would your Honor hear me for one brief general question?

THE COURT: No, not at the moment.

MR. BARR: Your Honor, it simply relates to whether we should note the objection for the record now or whether we should --

THE COURT: You may note it now.

MR. BARR: Thank you.

THE COURT: Your objection is noted.

MR. BARR: I don't mean to your Honor's ruling. I mean to the documents and these attending.

THE COURT: I understand.

MR. BARR: Thank you.

(Question read)

A I would not consider the mere announcement of the replacement by this company, of whom I know nothing about, necessarily to be in competition with HIS for that particular product.

Q Is such an announcement something that would be considered or taken into account by Honeywell's personnel responsible for pricing Honeywell products?

A I don't know.

MR. BOIES: May the witness be handed Defendant's Exhibit 233 for identification, please.

Your Honor, Defendant's Exhibit 233 for identification is a document which was produced to us from the files of Honeywell's Pricing Department by Honeywell yesterday.

A copy has been furnished, I believe, to counsel for Honeywell and I believe the original is available either in the courtroom or at our offices in case there is any doubt that this in fact is a copy of a document produced from Honeywell's pricing files by Honeywell to us yesterday.

On that representation, I would offer Defendant's Exhibit 233 for identification as Defendant's Exhibit 233 in evidence, subject to any comparision that counsel for Honeywell or counsel for the Anti-Trust Division wishes to

Exhibit N

make as to whether or not this was actually produced from the files of Honeywell's Pricing Department.

MR. MOY: No objection, your Honor, subject to the Government's reservation of a later motion to strike.

THE COURT: There will be no motions as such to strike any testimony.

I think this is a good time to clear up any misconceptions about my earlier announcement which is a ruling. I have indicated that testimony of a certain nature is being received provisionally, and at a time to be specified and designated by the Court, each side will have an opportunity to indicate its views and what objections they may have to evidence that has been introduced and received, and will have an opportunity to make whatever legal objections it deems appropriate, and that's that.

Now, perhaps we ought to discuss a regular period for such memoranda and for such statements to be made,but let me emphasize, I will not consider motions to strike as such, not until I give the instruction that that may be done.

Is that clear?

MR. MOY: I understand very clearly,your Honor.

THE COURT: And I shall be prepared at the end

of the day to sit down and chat with you about establishing some course of treatment for any views that you may have about evidence which has been received.

Keep in mind again, much of this evidence is being received provisionally.

MR. BARR: Your Honor, on that basis --

THE COURT: Now, Mr. Barr.

MR. BARR: I would like to --

THE COURT: No, just a moment.

We have got to have an orderly procedure. At the moment I have Mr. Boies at the lectern. He is the one that is conducting this portion of the trial.

Now I can't have you or Mr. Carlson, who has not, jump up and divert my attention. If you have anything to say, save it for a later time during the course of the day, or please communicate what you would like to have brought to my attention to Mr. Boies.

MR. BARR: Your Honor, I will be glad to do that. I thought I would be saving your Honor some work and I will simply defer it until later in the day.

THE COURT: It may be saving my time, but it is diverting my attention.

MR. BARR: As you wish, your Honor. We will proceed and I will wait until a later time.

xx (Defendant's Exhibit 233 received in evidence)

THE COURT: I should not say "still," because I was not really sure it was tenable at that time. I hope it is now.

MR. BARR: Your Honor, we also offer to the Court Joint Exhibit No. 2, which we discussed in chambers this morning, or in the robing room. I think I need not describe it any further than it was described there and embellished on substantially by both sides. It does relate to the Telex record and it is, I think, the hope of counsel on both sides that it will lead to the elimination of some of the witnesses and some of the documents that otherwise would be called in this case and will prove fruitful in saving the time of both sides.

MR. CARLSON: Your Honor, the Government will have no objection and joins in the offer. I might add, however, that in view of the colloquy of counsel and the Court this morning it may become appropriate to modify or add to this stipulation in some way that will render it more meaningful in terms of use of that record. If that works out between the parties, we will notify your Honor.

MR. BARR: Yes. I think, as I said, your Honor, I look upon this as a step and not as anything being a final solution.

Mr. Carlson has actually made the offer, and

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Exhibit O

I join him in offering Joint Exhibit 2.

THE COURT: Very well.

(Joint Exhibits 1 and 2 received in evidence.)

MR. BARR: Your Honor, I have nothing further, and I understand Mr. Bloch will now be called and Mr. Dodyk will handle Mr. Bloch for the defendant.

MR. CARLSON: Your Honor, Mr. Bloch is in the courtroom and ready to take the stand. I wonder if it would contribute to efficiency if we took just several moments recess for counsel to set up their materials for the examination of Mr. Bloch.

(Recess)

R I C H A R D M. B L O C H, called as a witness in behalf of the Government, being first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. GOLDBERG:

Q Mr. Bloch, what is your address?

A 201 Fuller Street, West Newton, Massachusetts.

Q What is your present occupation?

A I am a private consultant. I am also affiliated with an investment, acquisition, merger and venture capital

UNITED STATES OF AMERICA

v. 69 Civ. 200 (DNE)

INTERNATIONAL BUSINESS MACHINES CORPORATION

May 25, 1976
10:30 a.m.

New York, New York

- - -

(Trial resumed)

(In the robing room)

MR. BARR: Your Honor, I asked for this session, and I asked for it after talking with Mr. Carlson some this morning, and I mentioned the subject to your Honor's law clerk.

Suffice it to say, however, that I recognize at the outset that neither your Honor nor Mr. Carlson have had any opportunity to think about this, and I am not asking anybody to decide anything at the moment. I am simply informing.

What I want to inform your Honor of, and I have already informed Mr. Carlson of, is that subject to completing our legal research, we intend to file very promptly a petition for mandamus with respect to the Court's May 14th Order, and we will seek review on both the Court's ruling on the attorney-client privilege and

Exhibit P

the Court's ruling on the work product protection.

I wanted first of all, your Honor, simply to tell you that and tell Mr. Carlson that.

Secondly, I wanted to make sure -- I am not in any sense seeking an opportunity to rearque, and I am certainly not going to try to do anything substantive at this point. but I just wanted to be sure that from your point of view in your mind we had adequately presented our whole position here.

The privilege matter, the work product matter has come at you over a period of time in what may well be thought of as a fairly disconnected and disjointed manner. I think that everything has been presented.

But there is also a great benefit in presenting it in a cohesive and coordinated and elaborate fashion. We are, of course, trying to do that in the papers that we are drafting for the Court of Appeals.

I would be glad, if your Honor felt for any purpose that it would be desirable, to present those papers in a form to your Honor and give your Honor a chance to consider them and give Mr. Carlson a chance to respond here if you thought that was in any sense desirable. simply because of the fact that, as I say. it has come up in bits and pieces and a number of orders. There

have been decisions of other courts in this circuit since your Honor made some of the rulings.

Some of those decisions are decisions which take the same position as your Honor takes. Some go the other way.

All I am saying, Judge, is that if there is any -- and I am perhaps being a little oversensitive from the last time -- I just don't want to leave any feeling that I have not, from your point of view, adequately presented the matter to you in a way that gives you a full opportunity to consider it appropriately.

The third problem is the question of a stay pending decision by the Court of Appeals.

It is our intention to file the papers in the Court of Appeals just as quickly as we can complete their preparation. We are working on them now. I can't be precise as to what the date is, but the date will be this Friday or Monday -- Monday is Memorial Day -- or Tuesday -- certainly not later than Wednesday of next week, and the Court of Appeals has and will move expeditiously to grant it or deny it, and that will be that, and the stay that I will be seeking is a stay until the Court of Appeals has acted on the petition for mandamus.

Now, there are two other things in connection with that. One is the question of whether some way could be found to put before the Court, the Court of Appeals, the totality of the problem with respect to the privilege and work product documents.

The situation that now exists is that your Honor has entered an order which we must either comply with or seek review and obtain a stay.

Therefore, it is beyond my power acting unilaterally to broaden that in any way, put anything more before the Court of Appeals than is fairly presented by the instant order compelling me to produce documents.

There might be a way, if Mr. Carlson thought it appropriate, in which we could -- or if your Honor thought it appropriate -- in which we could broaden what is put before the Court of Appeals and accomplish in that manner the assurance which would please me and I am sure would please Mr. Carlson. I am sure your Honor is indifferent to it, but the result would be that we would have just one -- for sure -- just one attempt to seek mandamus from the Court of Appeals. That would be over with one way or the other. That has some attraction to me, although it is not within my power to accomplish it at the moment.

The other possibility related to that is that

Mr. Carlson might, when he has had some opportunity to study the matter, agree that it was appropriate that a stay be entered pending resolution of a petition for mandamus by the Court of Appeals under certain terms and conditions, and we might -- and I am speaking, and I want to make clear, without Mr. Carlson having had any opportunity to consider the matter or convey any impression to me one way or the other. But we might be able to present it to the Court for its consideration in deciding whether to grant a stay because even if the two of us agreed, obviously, there is an order and we cannot agree to stay the enforcement of that order. That would ultimately have to be done by the Court.

Your Honor, my suggestion, having said all of this, is twofold:

One, that by tomorrow evening I inform the Court either that Mr. Carlson and I can present something to the Court in the way of a stipulation for your consideration, or that we cannot, in which case I would ask you in any event to grant a stay of your order of May 14th for a period long enough to place before the Court of Appeals and have the Court of Appeals pass upon a petition for mandamus with respect to that order.

If anything about what I have said is not

clear, I'd be glad to go back over it.

MR. CARLSON: Your Honor, I am somewhat disabled this morning. My man about privilege is Mr. Serota, who is out sick today. I had hoped to have him with me this morning but was unable to.

I have the feeling that without having talked this over with the people who are more knowledgeable in this area than I am that the matter that Mr. Barr suggests, that is, the stay of one appeal now, to join another or several others, or however many IBM eventually decides to take, is not a solution to the problem we face, but I have not had a chance to review, in light of this development, the Circuit Court's what I regard as rather new law on the subject of mandamus during the progress of a case. So I don't even have a view as to whether this kind of appeal would be within the ambit of the Court's opinion. It certainly was far outside my thoughts of any appealability as I knew the law prior to my entry on this case.

So I really don't have any feeling about what the Government's position will be on a stay other than I do not see any saving to anybody by a stay now, that is, assuming that in the event one will be sought in the Circuit Court and will be sought in this court, too.

I don't see any advantage either to the Government

or to the Court in an agreed stay, but I have not consulted on the subject, and I think that it is going to take me certainly the rest of the day to do what really I need to do, to talk to my colleagues about where this is going to come out and how we could best use our resources, remembering, as I have indicated to your Honor all along, that our purpose is to get these documents into the stream of the Government's case when they are supposed to go in, that is, when they would be most understandable to the Court, and if something puts that off for three months or six months because of something I do, there is no question in my mind I would oppose that.

THE COURT: I assume you want an opportunity to consult with Mr. Serota before you give me a definite answer.

MR. CARLSON: I would like the rest of the day, anyway, your Honor.

THE COURT: All right. Mr. Barr suggested as late as tomorrow--didn't you?

MR. BARR: I did.

MR. CARLSON: If there is any thought that Mr. Barr and I can agree on it, I will contact him and you, your Honor, but if there is no thought I will try to get word to the Court and Mr. Barr by the end of today.

THE COURT: I will refrain from and withhold any comment until I hear from you definitively either today or tomorrow.

MR. BARR: I have nothing else to add to that, your Honor.

(Continued on next page)

UNCORRECTED

AFTERNOON SESSION

2:15 p.m.

L A W R E N C E W E L K E, resumed.

THE COURT: Before you continue with your redirect, I should like to make some reference to the robing room conference this morning and to the May 14, 1976 opinion of this Court.

I took the liberty of requesting the reporters to prepare a transcript of the conference this morning so I could have an opportunity to take a look at it, and it occurs to me that there is no useful point, no useful purpose, in addressing myself to this later today or tomorrow.

I think in all candor I should indicate my position now so that defendants will have all the lead time that they possibly can have.

I rest on the opinion of May 14th. I think and believe it is accurate. I would not grant a stay were request for that relief made to me.

I am ready to proceed.

MR. WOGHIN: Your Honor, Mr. Carlson indicates to me that he would like the opportunity to address the Court at this point.

MR. CARLSON: For just a moment, your Honor,

because I had promised to get back to the Court and Mr. Barr on the question of a stay, what the Government's position would be, and the Government would oppose a stay, and I thought the record should so reflect.

THE COURT: Well, I wasn't attempting to anticipate your position; I was merely indicating the Court's position.

MR. CARLSON: The reason I put that on the record now is, your Honor, I had the information at noon. I did not expect to get it until late this afternoon.

THE COURT: Very well.

MR. BARR: Your Honor, I appreciate the Court's position and Mr. Carlson's, and I thank both of you for promptly responding.

We will go ahead and file our papers as I indicated to you this morning and seek a stay from the Court of Appeals as rapidly as we can.

THE COURT: Very well.

MR. WOGHIN: May I proceed, your Honor.

THE COURT: You may.

REDIRECT EXAMINATION (Continued)

BY MR. WOGHIN:

Q Mr. Welke, prior to the luncheon recess you were testifying with respect to a marketing of applications

UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF NEW YORK

UNITED STATES OF AMERICA, Plaintiff, -against- INTERNATIONAL BUSINESS MACHINES CORPORATION, Defendant.	69 Civ. 200 Civ. No. 72-344 (Consolidated) (D.N.E.)

STIPULATION

WHEREAS The Telex Corporation and Telex Computer Products, Inc., filed suit against International Business Machines Corporation (IBM) on January 21, 1972, alleging IBM's monopolization of, and attempts to monopolize, the worldwide manufacture, distribution, sale and leasing of electronic data processing equipment, particularly plug compatible peripheral equipment for attachment to IBM central processing units;

WHEREAS some of the discovery taken in that case was jointly conducted with some of the discovery in this case;

WHEREAS the trial of Telex v. IBM commenced on April 16, 1973, and continued until June 10, 1973;

WHEREAS a substantial part of the testimony and documentary evidence (including the testimony and many of the exhibits of Messrs. Ashbridge, Grant, Hochfeld, James, Jatras and Whitcomb on plaintiff's witness list and the testimony and exhibits of Messrs. Cary, Custard, Evans,

JOINT EXHIBIT 2

Fisher, Heinzmann, Hill, Hurd, Rodgers, Terry, Welch, Winger and others on defendant's witness list) introduced in that case may be relevant to the trial of this case;

WHEREAS the parties to this action are desirous of shortening the trial preparation and the trial of this action;

WHEREAS the parties agreed on September 18, 1975, to stipulate the record of Telex v. IBM with the exception of some or all of the stipulations of fact and findings of fact therein;and

WHEREAS both parties have reviewed the Telex record in accordance with this Court's suggestion;

IT IS HEREBY STIPULATED AND AGREED BETWEEN THE PARTIES THAT:

1. The trial record of Telex v. IBM in the District Court, or any part thereof, excluding the Stipulations of Fact, Admissions of Telex, and the Court's Findings of Fact, may be offered in evidence by either party during the trial of this case subject only to objections of relevancy or materiality by the opposing party.

2. Either party may draw from the contents of this record after its receipt in evidence to support its position with respect to any or all issues in this case;

3. The parties reserve the right to supplement, modify, contradict, or argue the weight of any of the Telex record so offered.

November 10, 1975

U. S. DEPARTMENT OF JUSTICE,
Washington, D. C.

by Raymond M. Carlson

Attorney for Plaintiff

CRAVATH, SWAINE & MOORE,
One Chase Manhattan Plaza
New York, N. Y. 10005

by Thomas D. Barr

Attorney for Defendant

Copies of the opinions of Judge Newman in SCM Corp. v. Xerox Corp., Civ. No. 15807 (D.Conn. Feb. 4, 1976, March 9, 1976 and March 22, 1976) were not available to counsel for petitioner at the time this petition was being prepared. Reproduced below are the portions of SCM's Appendix in Docket No. 76-3017 which contain these opinions.

Pre-Trial Ruling No. 17.

UNITED STATES DISTRICT COURT
DISTRICT OF CONNECTICUT

CIVIL No. 15,807

SCM CORPORATION

v.

XEROX CORPORATION

Plaintiff SCM has moved pursuant to Rule 37, Fed. R. Civ. P., for an order compelling responses to numerous interrogatories, deposition questions, and document requests; defendant Xerox claims the attorney-client privilege. The assertion of privilege arises in several different contexts.

Xerox-Rank Organisation Negotiations

The first context concerns negotiations between Xerox and its joint venturer, The Rank Organisation [Rank], in 1968-69. SCM seeks to require Xerox personnel to disclose what they discussed during those negotiations. At that time Xerox and Rank each had a 50% interest in the joint venture, and were negotiating Xerox's acquisition of voting and managerial control. The parties appear to assume that the substance of the statements by Xerox personnel were sufficiently related to the obtaining of legal advice to be protected by the attorney-client privilege. The issue is whether the privilege was lost because of the discussions held with Rank personnel in which that information was revealed. This requires consideration of whether Rank and Xerox had

Exhibit R

sufficiently common interests in the subject of the otherwise privileged information to warrant maintaining the privilege, or whether the disclosure to Rank defeated the requirement of confidentiality.

It is apparent from the affidavit of C. Peter McColough, then Chief Executive Officer and President of Xerox, that the statements claimed to be privileged consist of antitrust analysis by Xerox's attorneys. The key question becomes how Rank was interested in those considerations.[1] Xerox has not established that the discussions with Rank revolved around the possibility of shared exposure to antitrust liability. Instead, it appears that Rank was only indirectly concerned with Xerox's antitrust posture in that Xerox was a joint venturer. As McColough testified, the meetings and statements discussed "legal considerations affecting Xerox as they related or as they might relate to the matters being negotiated." McColough Deposition, Tr. 2251-52 (May 1, 1975). Rank's interst in the negotiations does not appear to be that of a potential co-defendant in a possible antitrust action. Rather, it was negotiating the price for relinquishing voting and managerial control in Rank-Xerox to its formerly equal partner. On that issue the parties were not commonly interested, but adverse, negotiating at arm's length a business transaction between themselves.

The differing business interests of Xerox and Rank are apparent from the course of the 1968-69 negotiations. The communications in question took place during protracted negotiations between joint venturers, but were not directed at advancing the joint interest vis-a-vis the rest of the world. Instead the parties were negotiating a business proposition between themselves. That the overall profit-

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[1] Note, *Waiver of Attorney-Client Privilege on Inter-Attorney Exchange of Information*, 63 Yale L.J. 1030, 1035 (1954).

ability of the joint enterprise was a general consideration in which both parties' interests converged does not lessen the significance of their divergent interests. Their interests regarding antitrust considerations were not sufficiently common to justify extending the protection of the attorney-client privilege to their discussions. McColough is, therefore, instructed to answer the four questions asked of him and now in dispute. McColough Deposition, Tr. 2240, 2252-54 (May 1, 1975).

The cases relied upon by Xerox are distinguishable. In *Continental Oil Co.* v. *United States*, 330 F.2d 347 (9th Cir. 1964), the exchange of information about grand jury questioning occurred among potential co-defendants. In *Hunydee* v. *United States*, 355 F.2d 183 (9th Cir. 1965), the pre-indictment conference was held to apprise each defendant of the other's situation and intended plea. The court treated the exchange as intended to facilitate representation in the coming proceedings and apparently considered the matters of common interest to predominate over the adversity between the interests of the parties. The impending indictment of both parties as participants in the same illegal transaction presented a situation that justified applying the privilege to conversations with their attorneys at a conference between them, as if they were co-defendants. The interests of Xerox and Rank do not approach that level of common defense.

In *Stanley Works* v. *Haeger Potteries, Inc.*, 51 F.R.D. 551 (N.D. Ill. 1964), and *Burlington Industries* v. *Exxon Corp.*, 65 F.R.D. 26 (D. Md. 1974), courts considered the parties' interests in joint licensing programs sufficiently in common to justify protecting communications between the interested parties in preparation for trials in which their common business interests were involved.

Each of the protected communications in cases cited by Xerox was an instance in which the parties were involved

in or anticipating litigation. The privilege need not be limited to legal consultations between corporations in litigation situations, however. Corporations should be encouraged to seek legal advice in planning their affairs to avoid litigation as well as in pursuing it. The timing and setting of the communications are important indicators of the measure of common interest; the shared interest necessary to justify extending the privilege to encompass intercorporate communications appears most clearly in cases of co-defendants and impending litigations but is not necessarily limited to those situations.[2]

Xerox-Battelle Antitrust Discussions

Xerox asserted the attorney-client privilege when Sol M. Linowitz, former Xerox counsel and former member of its Board of Directors, was asked about a discussion he had with Battelle executives on the subject of antitrust. Xerox and Battelle may be considered to have shared sufficiently common interests in the exploitation of certain xerography patents so that the attorney-client privilege would appropriately apply and protect their joint discussions on topics of common interest. *Cf. In re Yarn Processing Patent Litigation*, 177 U.S.P.Q. 514 (S.D. Fla. 1973); *Burlington Industries* v. *Exxon Corp. supra; Stanley Works* v. *Haeger Potteries, Inc., supra.* But their individual postures relevant to the antitrust discussions in point are undefined. In order for the Court to make an informed determination, Linowitz is directed to submit to the Court for its *in camera* inspection his affidavit setting forth his best recollection of conversations he had with John Gray and John Cr[illegible] Battelle executives, in which

[2] *See* Note, *The Attorney-Client Privilege in Multiple Party Situations*, 8 Colum. J.L. & Soc. Prob. 179, 189 (1972).

antitrust matters were discussed during the period prior to the 1956 Xerox-Battelle agreement. See Linowitz Deposition, Tr. 421 (Oct. 10, 1975). This recounting of what each man said should assist the Court in determining whether the interests of their respective companies were sufficiently in common with regard to the particular issues discussed to justify application of the privilege.

The deposition question asked of Linowitz on July 2, 1974, at page 193 concerning the Rochester meeting should be answered. The discussion between Joseph Wilson and Linowitz of Xerox and Crout of Battelle recounted discussions that had taken place before the first Xerox-Battelle agreement. There has been no showing of common interest, or of legal consultation at that discussion. While the question was not renewed in all its parts at the time of the deposition, SCM has pressed it on this motion. Since the claim of privilege is denied, the question should be answered. Linowitz Deposition, Tr. 193 (July 2, 1974).

The Patent Committee

A related area of dispute is the applicability of the privilege to the committee of Xerox and Battelle representatives that considered the xerography patent structure. While all work of the committee is not necessarily privileged, the requisite common interest to satisfy the confidentiality aspect of the privilege appears to have been present on the subject of the development of xerographic technology and related patent rights. Chester Carlson, Battelle, and Xerox shared a business interest in the successful exploitation of certain patents. Whether the legal advice was focused on pending litigation or on developing a patent program that would afford maximum protection, the privilege should not be denied when the common interest is clear. *Cf.* 8 Wigmore § 2294 (McNaughton rev. 1961). In this setting of joint analysis and cooperative study, the

three parties' common interests in patent protection predominated. *Cf. In re Yarn Processing Patent Litigation, supra; Burlington Industries* v. *Exxon Corp., supra; Stanley Works* v. *Haeger Potteries, Inc., supra.* The Court has examined the excised portions of the Battelle memorandum requested during the deposition of Dr. John H. Dessauer on October 25, 1974, at page 380, and found them to concern litigation and patent matters. They remain protected. The letter from Linowitz to Frank Steinhilper, both Xerox attorneys, does not lose its privileged character because it requested preparation of a presentation to be shared with Battelle, nor because of the reference to the opinion of Carlson. PX 336A. The question asked of Dr. Dessauer on October 30, 1974, at page 19, calling for an evaluation of basic patent protection asks for legal advice and need not be answered.[3]

Patent Information

Xerox resists SCM's document request, Dessauer Deposition, Tr. 48 (Nov. 1, 1974), by asserting the attorney-client privilege but has failed to establish that the documents represent or reveal confidenital communications from client to attorney. On the contrary, the documents are memoranda prepared by attorneys in the Xerox patent

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[3] *See Inquiry into Reasons for Decisions and State of Mind, infra.*

The following question asked what Dr. Dessauer considered to be the "technical advantage." Dessauer Deposition, Tr. 19 ll. 9-20 (Oct. 30, 1974). That question appears to be directed at business considerations, *e.g.*, an evaluation of products with those of competitors. Dr. Dessauer did discuss that question later in his deposition testimony. *Id.* at 32-34. Dr. Dessauer should have also answered the earlier question now in dispute and is directed to do so.

department.[4] Ralabate Affidavit 3. They contain much public information (patent numbers, holders, dates of application and issuance), brief descriptions of the patents, and what Xerox characterizes as legal opinions regarding patent applicability. The public information is not protected. See *United States* v. *Silverman*, 430 F.2d 106, 121-22 (2d Cir. 1970); *United States* v. *United Shoe Machinery Corp.*, 89 F. Supp. 357, 359 (D. Mass. 1950). The technical information is probably discoverable as facts within the knowledge of Xerox. See *City of Philadelphia* v. *Westinghouse Elec. Corp.*, 205 F. Supp. 830, 831 (E.D. Pa. 1962). Legal departments are not citadels in which public, business or technical information may be placed to defeat discovery and thereby ensure confidentiality. See *Natta* v. *Zletz*, 418 F.2d 633, 637-38 (7th Cir. 1969). Whatever legal judgments are contained in the documents would merit protection, if at all, as work product, not by application of the attorney-client privilege. *Hickman* v. *Taylor*, 329 U.S. 495, 508 (1947).

Xerox's alternative claim to work product protection fails for another reason. Only PS 22049 and PS 91380 are specifically claimed to have been prepared in anticipation of litigation, Xerox Memorandum p. 165, and exam-

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[4] This discussion is particularly concerned with PS 91130, PS 91378, PS 1741, PS 21189, PS 90299, PS 91459, and PS 91465.

Other documents submitted for *in camera* inspection involve requests from third parties for lists of patents promised by legends on certain Xerox machines and Xerox internal communications in preparing its responses. PS 296, PS 101387, PS 101390, PS 101391, PS 101392, PS 101393. The internal documents were circulated between Xerox patent attorneys and the office of its general counsel. Legal opinions regarding patent coverage contained in these documents were ultimately revealed to the third parties and confidentiality thereby relinquished. The other content of the documents merely reveals the mechanics of responding to the intercorporate inquiry and does not merit the protection of the privilege.

ination of the other documents does not reveal any basis from which to infer that they were sufficiently connected to litigation to merit protection. While some authority exists for broadly construing how far litigation may be anticipated, see *Sylgab Steel & Wire Corp.* v. *Imoco-Gateway Corp.*, 62 F.R.D. 454 (N.D. Ill. 1974); *American Optical Corp.* v. *Medtronic, Inc.*, 56 F.R.D. 426 (D. Mass. 1972); *Stix Products, Inc.* v. *United Merchants & Manufacturing, Inc.*, 47 F.R.D. 334 (S.D.N.Y. 1969), no decision has stretched the concept to the extent requested here. A specific claim must have arisen to make the prospect of litigation identifiable in order for the work product rule to apply. See *Sylgab Steel & Wire Corp.* v. *Imoco-Gateway Corp., supra; Abel Investment Co.* v. *United States*, 53 F.R.D. 485 (D. Neb. 1971); *Technograph, Inc.* v. *Texas Instruments, Inc.*, 43 F.R.D. 416 (S.D.N.Y. 1967).

Xerox has failed to establish the strict applicability of either the attorney-client privilege or the work product doctrine. Nevertheless, this Court retains some hesitancy about forcing counsel to hand over documents concerning its patents to a party opponent. *Cf. Hickman* v. *Taylor*, 329 U.S. 495, 510 (1947). On this motion, the balance between discovery policies and hesitancy to unlock an adversary attorney's file will be struck in favor of disclosure. Here the requested documents reveal lists of patents and their commercial uses according to Xerox's patent department. Were this simply a patent case such discovery might not be allowed because, in listing patents, the lawyer's implicit judgments as to coverage might be significant. But in the context of this antitrust action the detail of the material to be disclosed may be probative without any regard to a lawyer's judgment as to the coverage of any particular patent. What will be important will be whether SCM can establish that Xerox retained a large number of unused patents. No claim to protection having

been sustained, the documents submitted in response to this discovery motion and so far discussed should be produced to SCM.

PS 22049 and PS 91380 are claimed to have been prepared in connection with a 1970 patent infringement suit. Once having been work product, these documents do not automatically lose that protection in subsequent litigation. *Duplan Corp.* v. *Moulinage et Retorderie de Chavanoz*, 487 F.2d 480 (4th Cir. 1973); see *Republic Gear Co.* v. *Borg-Warner Corp.*, 381 F.2d 551, 557 (2d Cir. 1967); *cf. Midland Investment Co.* v. *Van Alstyne, Noel & Co.*, 50 F.R.D. 134 (S.D.N.Y. 1973). It is not clear whether the series of patent infringement suits filed by Xerox against IBM has been concluded or whether the underlying dispute has been settled. So, while this antitrust action was not the litigation "viewed" by Xerox attorneys preparing these papers, the legal opinions and facts contained therein may remain protected as work product. Compare *Republic Gear Co.* v. *Borg-Warner Corp.*, *supra*, with *Duplan Corp.* v. *Moulinage et Retorderie de Chavanoz*, 509 F.2d 730 (4th Cir. 1974), *cert. denied*, 420 U.S. 997 (1975). Furthermore, SCM has not demonstrated substantial need for these specific materials, nor any undue hardship in being able to obtain substantially equivalent information. Fed. R. Civ. P. 26(b)(3).

The interrogatories present somewhat different questions. Interrogatory 62 asks for (a) identification of each patent used in Xerox duplicators and (b) identification of each presently pending patent application. It is uncontested that from the 1950's until approximately January, 1972, when a change in policy was implemented, Xerox had affixed data plates to its machines either listing the patents used or representing that a list of patents used in that machine would be supplied upon request. That policy and the reinforcing testimony of Linowitz establish that such

patent information was not intended to be kept confidential during that time period, and it is not now protected. Xerox should answer interrogatory 62(a) as it relates to models that bore such legends. See 8 Wigmore, *supra*, § 2311.

Xerox need not express its opinions as to which patents were used in its machines after January, 1972, when a change in its policy of disclosure was implemented, nor as to duplicators that never carried a legend promising disclosure. Xerox's responses to third-party requests for patent information before the change in policy did not include the listing of patents pending, and there is no indication that Xerox ever intended to make public its opinions concerning which pending patents were employed in its products. That information need not be disclosed now. These aspects of the interrogatory requests not simply duplicative of the document discovery would require Xerox to formulate opinions not required to particularize any of its own claims. It is also the type of burdensome trial preparation that Xerox need not undertake for SCM, especially in light of the document discovery being granted. See Pre-Trial Ruling No. 12 at 3 (May 29, 1975). Similarly, interrogatory 63 need not be answered—it concerns Rank-Xerox and Fuji-Xerox duplicators.

Inquiry into Reasons for Decisions and State of Mind

In this group of questions the issue is whether SCM may ask for reasons underlying particular decisions or actions when the answer will reveal legal advice received and thereby disclose a privileged conversation between client and attorney. Communications by the attorney to the client in the consultation process are privileged when they state or imply facts communicated to the attorney in confidence. See *United States* v. *Silverman*, *supra*, 430 F.2d at 122. The claims to privilege by Xerox executives will not be

circumvented by framing the question to request reasons for a decision when there is every indication that those reasons are *limited* to reliance on protected legal advice. It is true that a client's knowledge of facts may not be cloaked under the attorney-client privilege by incorporating a statement of those facts in a communication to the attorney. But privileged advice does not lose its protection when the client adopts it. To allow a litigant to probe beyond the assertion of privilege to the substance of the legal advice because the client takes the advice to heart and acts upon it would effectively circumvent the protection of the privilege. For this reason when a deponent answered a question about his reasons by saying that he was only relying on his attorney's legal advice, that answer is a sufficient response. Dessauer Deposition, Tr. 71 (Dec. 5, 1974); Linowitz Deposition, Tr. 568 (Nov. 25, 1974).

Along the same lines, when SCM asked for considerations or asked questions to elicit what it characterizes as a state of mind, and the response clearly indicated that the deponent was relying on legal advice, the attorney-client privilege will apply. McColough Deposition, Tr. 922 (June 26, 1974), 967 (Sept. 20, 1974), 1648 (Dec. 29, 1974); Dessauer Deposition, Tr. 19 (Oct. 30, 1974).[4]

A related problem arises with respect to a group of deposition questions asking McColough for the reasons or considerations involved in decisions to grant or refuse licenses; he responded that the business and legal reasons were so interwoven that he could not answer without disclosing privileged conversations. By contrast to the groups of questions just discussed, to which a deponent responded that he relied upon the advice of counsel, in his answers McColough recognized that both legal and business con-

[4] It is apparent that the response to the question asked Dr. Dessauer on April 23, 1975, at 29-30, would encounter the same claim, reliance on legal advice.

siderations were involved. The mere mention of business considerations is not enough to compel the disclosure of otherwise privileged material. See *United States* v. *United Shoe Machinery Corp., supra*, 89 F. Supp. at 359. Here it is not clear that the decisions were the type in which business personnel defer to the recommendation of legal staff. Licensing decisions may contain a legal component, but are not inherently dependent on legal advice; they are essentially business decisions. Legal advice should remain protected along with "nonlegal considerations" discussed between client and counsel that are relevant to that consultation, but when the ultimate decision then requires the exercise of business judgment and when what were relevant nonlegal considerations incidental to the formulation of legal advice emerge as the business reasons for and against a course of action, those business reasons considered among executives are not privileged. They are like any other business evaluations and motivations and do not enjoy any protection because they were alluded to by conscientious counsel. To protect the business components in the decisional process would be a distortion of the privilege. The attorney-client privilege was not intended and is not needed to encourage businessmen to discuss business reasons for a particular course of action. See Simon, *The Attorney-Client Privilege as Applied to Corporations*, 65 Yale L.J. 953, 955-56 (1956); *cf. City of Philadelphia* v. *Westinghouse Elec. Corp., supra*.

McColough has stated that he was concerned with both business and legal aspects of the licensing decisions. Since McColough was unable to separate these aspects he is ordered to answer the eight questions listed below in an affidavit to be submitted for *in camera* inspection and describe the decision making process so that the Court may determine whether the business considerations are the type of "relevant nonlegal considerations" incidental to legal

consultation referred to by Judge Wyzanski in *United States* v. *United Shoe Machinery Corp., supra.* McColough Deposition, Tr. 251 (June 18, 1974), 1494, 1496-97, 1504-05 (Dec. 19, 1974), 1663 (Dec. 20, 1974), 1783 (Mar. 3, 1975), 1819, 1827 (Mar. 4, 1975).

Finally, the four questions asked to elicit the evaluation of business interests affected by the eventual expiration of the basic Carlson patents should be answered. Dessauer Deposition, Tr. 370 (Oct. 25, 1974), 71 (Oct. 31, 1974); Linowitz Deposition, Tr. 525, 527 (Nov. 25, 1974). While those business interests might ultimately be influenced by the strictures of law, basic *business* effects, considerations, and policy should be disclosed. The substance of particular legal advice is not ordered to be revealed; patent or anti-trust advice from counsel may remain undisclosed.

Communications Between Executives[*]

This group of questions involves communications between Xerox executives. A privileged communication should not lose its protection if an executive relays legal advice to another who shares responsibility for the subject matter underlying the consultation. See *Sylgab Steel & Wire Corp.* v. *Imoco-Gateway Corp., supra,* 62 F.R.D. at 456; *United States* v. *Aluminum Company of America,* 193 F. Supp. 251, 253 (N.D.N.Y. 1960). It would be an unnecessary restriction of the privilege to consider it lost when top management personnel discuss legal advice. For this reason Dr. Dessauer's claim to privilege on November 1, 1974, page 58, is sustained.

As previously discussed however, business factors relevant to a corporate decision are not entitled to protection

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[*] Xerox has withdrawn its claims to privilege for the documents requested at Dr. Dessauer's deposition on October 30, 1974, at page 67, and February 12, 1975, at page 94.

unless they are merely incidental considerations helping to inform the legal advice. When the ultimate corporate decision is based on both a business policy and a legal evaluation, the business aspects of the decision are not protected because legal considerations are also involved.

Dr. Dessauer was asked a series of questions about the discussions that led to his vote authorizing the acquisition of Rank-Xerox stock from Rank. Dessauer Deposition, Tr. 89 l. 20, 90 (Apr. 23, 1975). Were the discussions intended to communicate confidential legal considerations, he would possess a valid claim to privilege since his testimony was that no business reasons for the purchase were shared with him that he could recall. See *id.* at 88 l. 5, 90 l. 19, 91 l. 17. Since those legal considerations appear to have been shared with Rank, however, the requisite confidentiality is lacking, and Dr. Dessauer is directed to answer the questions.[1]

McColough's conversations with Wilson about potential future antitrust problems took place against a background suggesting that they were discussing the recent recommendation of their corporate counsel concerning licensing policy and antitrust implications. A discussion between executives of legal advice should be privileged, McColough Deposition, Tr. 934 (Sept. 20, 1974). Similarly when McColough was asked what he knew and what Wilson had said about the scope of patent coverage and he answered that everything he and Wilson knew about Xerox's patent coverage came from its lawyers, the privilege attached. *Id.* 1730-32 (Mar. 3, 1975). That privilege would not extend blanket protection over Wilson's busi-

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[1] Ordinarily he would only have to answer a question asking his reasons for voting in a particular way as a director by revealing his business reasons. Dessauer Deposition, Tr. 89 l. 5 (Apr. 23, 1975). Here his reasons should also include the legal considerations that were shared with Rank during negotiations.

Exhibit 2

ness evaluations of the best way to proceed as an enterprise, however. Conversations between executives about the company's business policies are not protected. See *United States* v. *International Business Machines Corp.*, 66 F.R.D. 206, 210 (S.D.N.Y. 1974).

McColough was asked on June 19, 1974, at page 319, whether there had been any discussions of the impact of bringing a patent infringement suit on IBM's marketing efforts. The process leading to the decision whether to sue or [illegible] the type of decision making process that requires the best informed recommendation of counsel and the fullest cooperation of the client. Still, discussions separate from substantive legal considerations that eventually feed into the corporate decision and are directed at the possibility of securing a business advantage should not be protected. The question should be answered.

Linowitz was asked a series of questions about discussions with Wilson concerning the readjustment of the Xerox-Battelle relationship. Linowitz's claim to privilege extends only to substantive legal discussions not shared with Battelle. Linowitz Deposition, Tr. 447 (Oct. 10, 1974). It is hard to see how the value Xerox placed on the rights to future technology developed by Battelle could be considered privileged since that value must have been a subject of negotiation with Battelle. The question asked of Linowitz on October 10, 1974, at page 460, should be answered. The question asked of him on November 25, 1974, at page 532, is moot.

Dr. Dessauer asserted the privilege when asked whether he had ever recommended that Xerox act to prevent another company from becoming a competitor. Dessauer Deposition, Tr. 72-74 (Dec. 5, 1974). In order to resolve the claim of privilege, Dr. Dessauer should submit for *in camera* inspection his affidavit setting forth the circumstances of any discussion in which he made such a recommendation, with whom he was speaking, and what he said.

Pre-Trial Ruling No. 17.

Waiver

In PX 89, a letter from Linowitz to Wilson reporting a meeting with an IBM executive and a discussion of licensing, 12 lines have been excised that contain legal evaluations by Linowitz. McColough Deposition, Tr. 959 (Sept. 20, 1974). SCM claims that PX 212 discloses the substance of Linowitz's advice and vitiates the protection otherwise attaching to that statement. Xerox argues that the crucial sentence in PX 212 was left in it through inadvertence. Xerox points to the fact that the initial production of the document to the FTC did not include the critical reference. Xerox's affidavits imply that after documents were screened for production to the FTC they were thereafter simply copied en masse and not examined again for privileged information. If that was the case, the somewhat troublesome claim of inadvertence will be accepted and the claim to privilege sustained. If the documents were, in fact, individually screened for privileged material before being forwarded to Litton, IBM, and SCM, the repeated inclusion of the statement would not be easily excused. On the state of the affidavits as they now stand, the claim of inadvertence is upheld and no waiver established. Accordingly, McColough need not answer the questions asked on June 26, 1974, at page 869, and on September 20, 1974, at page 957, of his deposition.

SCM's waiver argument is stronger concerning the Cole memorandum. McColough Deposition, Tr. 986 (Sept. 20, 1974). Recent testimony, Linowitz Deposition, Tr. 10-12 (Nov. 18, 1975), reveals that much of the substance of Whitney North Seymour's advice concerning IBM's licensing request, the subject of the memorandum, was shared with IBM. The disclosure goes to the substance and strategy of Seymour's analysis and is sufficient to constitute a waiver of the section of the Cole memorandum entitled *IBM*, at 3-4. McColough should also answer the

related question asked of him on June 26, 1974, at pages 867-68.

Dr. Dessauer's colloquy with counsel concerning whether he believed Xerox could take advantage of the patent system and the impact of antitrust laws did not waive any attorney-client privilege. Dessauer Deposition, Tr. 25-26 (Apr. 23, 1975). He merely testified that Xerox retained counsel and endeavored to follow his legal advice. The substance of those legal consultations may remain privileged. Dessauer Deposition, Tr. 30 (Apr. 23, 1975).

SCM asks, on the ground of waiver, that McColough be instructed to answer a question about Wilson's statements concerning the scope and extent of Xerox's patent coverage. As the factual predicate for this conclusion, SCM recites numerous public statements by Xerox executives. These statements are general, vague, and conclusory. In substance they reveal that Xerox thought patents important to its business, that Xerox held hundreds of patents, and that Xerox considered itself to be successfully pursuing a powerful patent position. These self-interested characterizations may have had some public relations benefit, but they hardly amount to a waiver. See *Bose Corp.* v. *Linear Design Labs, Inc.*, 71 Civ. 3103 (S.D.N.Y. Mar. 10, 1975).

SCM also urges waiver based on certain disclosures that Xerox claims were inadvertently made during extensive document production. On the basis of the Xerox affidavits, the inadvertence is sufficiently established to preclude the use of these disclosures as grounds for waiver. The claim to privilege is sustained, and related questions need not be answered. McColough Deposition, Tr. 1730 (Mar. 3, 1975).

The claim of waiver because of Wilson's letter to William Call, PX 370, stating that the whole Electrofax development was dominated by basic xerographic patent protection, is denied. Linowitz Deposition, Tr. 775 (Jan. 1, 1975). While more specific than the other statements of Xerox

executives, this disclosure does not rise to the level at which fairness would demand that the privilege cease. See Wigmore, *supra*, § 2327. Finally, SCM's claims of waiver as to infringement of Xerox patents are also denied. McColough Deposition, Tr. 251 (June 18, 1974), 1648 (Dec. 20, 1974).

The Court expects that the decisions expressed in this ruling will provide sufficient guidance to the parties to enable them to resolve any remaining disputes as to the availability of the attorney-client privilege. Obviously resort to the Court every time a deposition question encounters a claim of privilege is impractical. If hereafter an issue of privilege arises in a context reasonably governed by this ruling, and a party either asserts the privilege or claims its unavailability in contravention of the decisions in this ruling, significant sanctions will be imposed.

Dated at New Haven, Connecticut, this 4 day of February, 1976.

Jon O. Newman
United States District Judge

Pre-Trial Ruling No. 19.

DISTRICT OF CONNECTICUT

CIVIL No. 15,807

SCM CORPORATION

v.

XEROX CORPORATION

I.

This Ruling, prompted by Xerox's motion for reconsideration of certain aspects of Pre-Trial Ruling No. 17, concerns primarily the availability of the attorney-client privilege to protect disclosure of documents prepared by attorneys in Xerox's patent department. Xerox asserts privilege on the ground that these documents include legal opinions of its patent attorneys concerning the coverage of particular machines by specified patents. Whether reconsideration can produce the clarification Xerox seeks is in some doubt, but since the issue arises in a field plagued by vague and often inconsistent judicial decisions, it may be useful to attempt a further discussion of the problem.

1. An initial question is whether the privilege protects all advice from attorney to client, or only advice that reveals (by adoption or implication) a fact communicated in confidence by the client to the attorney. The narrow position was set forth with emphatic precision by Judge Wyzanski in his oft-cited opinion in *United States* v. *United Shoe Machinery Corp.*, 89 F. Supp. 357, 358 (D. Mass 1950) ("the communication relates to a fact of

which the attorney was informed (a) by his client (b) without the presence of strangers (c) for the purpose of securing primarily either (i) an opinion on law or (ii) legal services or (iii) assistance in some legal proceeding . . ."). Among cases explicitly adhering to this view are *Colton* v. *United States*, 306 F.2d 633, 637 (2d Cir. 1962); *United States* v. *International Business Machines Corp.*, 66 F.R.D. 206, 211-12, 215 (S.D.N.Y. 1974); *Bird* v. *Penn Central Co.*, 61 F.R.D. 43, 46 (E.D. Pa. 1973); *Sperti Products, Inc.* v. *Coca-Cola Co.*, 262 F. Supp. 148, 149, 151 (D. Del. 1966); *American Cyanamid Co.* v. *Hercules Powder Co.*, 211 F. Supp. 85, 87, 90 (D. Del. 1962).[1] See also McCormick, *Evidence* § 93 (1954).

The broader position, protecting any legal advice from attorney to client, is supported by Dean Wigmore, 8 Wigmore, *Evidence* § 2320 (McNaughton Rev. 1961), and has been stated in some decisions, *e.g.*, *Natta* v. *Hogan*, 392 F.2d 686, 692-93 (10th Cir. 1968); *American Optical Corp.* v. *Medtronics, Inc.*, 56 F.R.D. 426, 430 (D. Mass. 1972) (alternate holding). Other decisions such as *Jack Winter, Inc.* v. *Koratron Co.*, 54 F.R.D. 44, 46 (N.D. Cal. 1971), and *United States* v. *Aluminum Co. of America*, 193 F. Supp. 251, 253 (N.D.N.Y. 1960), have implied the use of a broad

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[1] It is probably fair to include in this category *8 in 1 Pet Products, Inc.* v. *Swift & Co.*, 218 F. Supp. 253 (S.D.N.Y. 1963). It states "the advice of counsel based upon the confidential communications of a client is privileged." *Ibid.* It also states "legal advice rendered to a corporation by an attorney in its employ falls within the attorney-client privilege." *Ibid.* This appears to be a statement that house counsel are within the scope of the privilege, without broadening the privilege to dispense with the requirement of advice based on confidential communications from the client. The citation to *United Shoe* points in that direction, although the citation to the broader rule stated in 8 Wigmore, *Evidence* § 2320 (McNaughton Rev. 1961) points the other way. *See also J. P. Foley & Co.* v. *Vanderbilt*, 65 F.R.D. 523, 526 (S.D.N.Y. 1974).

rule but without noting whether or not the advice was based on a fact communicated by the client. That the advice was actually based on such a fact seems likely in some of these cases. Indeed, the *ALCOA* ruling states the broader rule but specifically cites the narrower *United Shoe* standard as "outlining the requirements to be shown by the party asserting the privilege." *Id.* at 252.

This split in authority is further complicated by two decisions within this Circuit. In *Georgia-Pacific Plywood Co.* v. *United States Plywood Corp.*, 18 F.R.D. 463 (S.D. N.Y. 1956), then District Judge Kaufman quoted Judge Wyzanski's formulation of the narrow standard and then observed, "Since communications by the attorney to the client might reveal the substance of a client's communication they are also within the privilege." *Id.* at 464. Again, the statement of a broader rule coupled with citation to the narrower *United Shoe* standard is perplexing. I think it unlikely that Judge Kaufman intended to abrogate the limitation contained in Judge Wyzanski's formulation, which he quoted at length. Perhaps Judge Kaufman meant only that if it is not clear whether the communication from the attorney relates to a fact disclosed to him by the client, the privilege should apply to guard against the *risk* of revealing client confidences. That approach would simply ease the client's burden of demonstrating that the privilege applies, but would not extend the privilege to communications from the attorney that demonstrably do not relate to facts disclosed by the client.

In *United States* v. *Silverman*, 430 F.2d 106 (2d Cir. 1970), the issue was the relatively easy one of whether the privilege protected against disclosure at trial of an attorney's report to a client union that disclosed minutes of a union meeting. The Second Circuit held that the report was not privileged since no confidential communication was involved, the minutes being public records. The uncertain significance of the decision arises from the inclusion and

subsequent deletion of a paragraph that specifically articulated the narrow standard, protecting communications from attorney to client only when they reveal confidential communications from client to attorney. *Id.* at 122. Upon petition for rehearing, the Court of Appeals deleted this paragraph from its prior opinion. *United States* v. *Silverman*, 439 F.2d 1198 (2d Cir. 1970). This was done "to avoid any . . . impression" that the earlier opinion made "an exception to the attorney-client confidential communication rules." *Ibid.* Xerox contends that the deletion demonstrates the Second Circuit's rejection of the narrow standard. I agree with Judge Edelstein that the deletion should not be given such significance. *United States* v. *International Business Machines Corp., supra*, 66 F.R.D. at 215. Neither the inclusion nor the deletion of the paragraph had any bearing on the *Silverman* holding, which rested entirely on lack of confidentiality. It is as likely that the paragraph was deleted because it was unnecessary as because it was an incorrect statement of the law. Or the Court may have been concerned that the deleted paragraph, describing attorney's advice as unprivileged unless it has the *effect* of revealing client confidences, stated the narrow standard too strictly; advice that risks disclosure of client confidences is entiled to protection, even under the narrow standard. See *Georgia-Pacific Plywood Co.* v. *United States Plywood Corp., supra.* Moreover, the *Silverman* opinion, even as unmodified, cited with approval the Court's prior decision in *Colton* v. *United States, supra,* which supports the narrow standard.

One other source of "guidance" should be noted. The Federal Rules of Evidence, as originally proposed by the Supreme Court, contained a detailed provision for the attorney-client privilege, which dispensed entirely with the qualification that the attorney's advice relate to facts communicated by the client. See proposed rule 503(b), 56 F.R.D. 183, 236 (1972). The proposed rule would have pro-

tected any confidential communication from attorney to client "made for the purpose of facilitating the rendition of professional legal services to the client." Inexplicably the Advisory Committee's Note does not discuss the two lines of authority on this point, nor even mention the choice implicitly made. While the proposed rules, even to the extent rejected by Congress, are nonetheless some evidence of "the principles of the common law" that are to govern privilege questions arising under claims founded on federal law, Fed. Rules Evid. Rule 501; see *Eutectic Corp.* v. *Metco, Inc.*, 61 F.R.D. 35, 38 n.1 (E.D.N.Y. 1973), I cannot accept proposed rule 503(b) as authoritative, especially in view of the total absence of any reasoned explanation from the drafters for resolving an unsettled question. See *Duplan Corp.* v. *Deering Milliken, Inc.*, 397 F. Supp. 1146, 1160-61 (D.S.C. 1974).

I see no reason to broaden the privilege beyond the narrow standard as set forth in *United Shoe*. The purpose of the privilege is to insure that the client may confide in his attorney to obtain legal advice. Unless the legal advice reveals what the client has said, no legitimate interest of the client is impaired by disclosing the advice. Wigmore's discussion of the broader standard concedes that it is not based on "any design of securing the attorney's freedom of expression." Wigmore, *supra*, § 2320, at 629. His rationale is twofold: to prevent use of the attorney's statements as admissions of the client or as revelations of the client's communication. The latter reason, of course, is safeguarded by the explicit requirement of the narrow standard. That same requirement seems adequate to protect against admissions entitled to protection. If the attorney's statement is based upon a fact communicated by the client, its use as an admission is barred by the availability of the privilege, even under the narrow standard. If the attorney makes an admission as agent for his client, without revealing a fact confidentially communicated from the

client, no reason appears why such admission should be protected.[2] Thus, Wigmore's reasons for adopting the broad standard are adequately satisfied by the narrow standard.

Whether the *Georgia-Pacific* qualification should be adopted is a closer question. Extending the privilege to communications from the attorney that "might" reveal client confidences reverses the normal approach that places the burden of establishing entitlement to the privilege on the client who claims it. On the other hand it does serve the purpose of the privilege by maintaining a client's ability to confide fully in his attorney. Without the protection for attorney communications that arguably contain client confidences, clients might be inhibited from confiding in their attorneys for fear that they might not be able to demonstrate that the attorney's communication was in fact based on their communication to him. The risk of such inhibition is virtually removed by holding the privilege unavailable when the attorney's communication is demonstrably based on facts that did not come from the client in confidence.

2. A second issue is whether the attorney's advice is privileged only when communicated to the client or when-

[2] The discussion in the Wigmore treatise concerning the need to prevent the use of the attorney's statements as admissions of the client refers the readers to § 1071, which concerns adoption by silence of statements made in one's presence. That situation too is adequately protected by the narrow standard. If an attorney's advice were admissible only because it had been tacitly adopted by the client, the tacit approval (equivalent to a spoken approval) is a confidential communication from the client to the attorney that would be revealed by the attempt to make the attorney's advice admissible. If the attorney's advice is admissible without adoption by the client, or as in discovery, is useful to the adverse party without regard to whether it was adopted by the client, there is no reason to consider it privileged.

ever expressed in confidence, such as in a memorandum to his own file. *Hickman* v. *Taylor*, 329 U.S. 495, 508 (1947), provides at least the basic answer when it states: "Nor does this privilege concern the memoranda, briefs, communications and other writings prepared by counsel for his own use in prosecuting his client's case; and it is equally unrelated to writings which reflect an attorney's mental impressions, conclusions, opinions or legal theories." Accord *Natta* v. *Zletz*, 418 F.2d 633, 637-38 (1969); see also *Dura Corp.* v. *Milwaukee Hydraulic Products, Inc.*, 37 F.R.D. 470, 473 (E.D. Wis. 1965).

Of course, the attorney's opinion and legal theories, even if recorded in his own files, are privileged under the narrow standard of *United Shoe* if they reveal information supplied in confidence by the client. But absent such information from the client, it is only the work product rule and not the privilege that protects the attorney's uncommunicated expression of opinion.

3. A third issue concerns the role of in-house patent counsel. Judge Wyzanski observed in *United Shoe* that in view of the usual duties of a person in a corporate patent department, the relationship of such a person to the corporation is "not that of attorney and client." 89 F. Supp. at 361. Significantly he illustrates the non-privileged activity of such a person with the example of spending time on "questions . . . of the scope of public patents . . . ." Id. at 360. Subsequent cases have somewhat refined the broad statements in *United Shoe* by regarding the communications of in-house patent counsel as privileged or not, depending on what the attorney is doing in the particular communication being examined. *Jack Winter, Inc.* v. *Koratron Co.*, 50 F.R.D. 225 (N.D. Cal. 1970); *Chore-Time Equip., Inc.* v. *Big Dutchman, Inc.*, 255 F. Supp. 1020 (W.D. Mich. 1966); *American Cyanamid Co.* v. *Hercules Powder Co., supra; Zenith Radio Corp.* v. *Radio Corp.*

of America, 121 F. Supp. 792, 794 (D. Del. 1954) (no privilege when concern is with "scope of public patents"). The privilege is not available when the communication from in-house patent counsel does not apply rules of law to confidential communications received from the client, *Paper Converting Machines Co.* v. *FMC Corp.*, 215 F. Supp. 249, 252 (E.D. Wis. 1963), but this is because that type of communication is not privileged, not because the person transmitting it is (a) in-house, (b) a patent lawyer, or (c) doing what some might regard as nonlegal work.

In some situations the statements of in-house patent counsel might appropriately be viewed as privileged statements of the client.[3] This could occur, for example, if patent counsel assembled a list of patents owned by his company but not, in his opinion, being used, and sent that list to the general counsel or outside counsel with a request for advice as to whether the retention of the unused patents created risk of antitrust liability. While the patents are public, the patent attorney's opinion as to their non-use adds a non-public ingredient, which if communicated in confidence to seek legal advice might well be entitled to protection.

From this discussion it is apparent that the documents in issue are not entitled to protection. They do not reveal facts communicated by the client in confidence. To the extent they may express legal opinions, these concern

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[3] This appears to be the view expressed in *Dura Corp.* v. *Milwaukee Hydraulic Products, Inc.*, *supra*, in which in-house patent counsel is described as "an employee of the [corporation] serving as its patent counsel." *Id.* at 472. Communications between him and outside counsel were accorded the privilege, though communications between the same outside counsel and the corporation's associate counsel were considered outside the privilege because they were not communications between attorney and client. *See also Duplan Corp.* v. *Deering Milliken, Inc.*, *supra* at 1167; *Georgia-Pacific Plywood Co.* v. *United States Plywood Corp.*, *supra* at 464.

the scope of public patents. It does not even appear that the documents were communicated to the client; however, even if routine transmission of information copies to the general counsel's office could be considered communication with the client, the "communication" is still not privileged since it demonstrably reveals no confidences of the client. Finally, there is no indication that in-house patent counsel were seeking anyone's legal advice concerning the contents of these documents. Indeed, Xerox's contention is that patent counsel were giving, not receiving, legal advice. With the attorney-client privilege not available to protect these documents, they are properly discoverable, the work product protection having been accorded in Pre-Trial Ruling No. 17 only to those documents prepared with an eye to litigation.[4]

II.

Xerox also seeks reconsideration of the ruling that there was not a sufficient showing of a shared exposure of Xerox and The Rank Organization to antitrust liability during Xerox-Rank negotiations to justify considering the legal advice given to Xerox officials in the presence of Rank officials as sufficiently confidential to remain privileged. To bolster its claim, Xerox has now taken the somewhat unusual step of submitting *ex parte* for the Court's *in camera* inspection an affidavit from counsel for Rank, purporting to demonstrate the substantiality of the risk of shared exposure.

SCM strenuously objects to the *ex parte* submission.

[4] In order to avoid possible misunderstandings concerning document identification, it should be noted that the reference to PS 90299 in Pre-Trial Ruling No. 17 n.4 should have been to PS 90295 *et seq.* Further, the documents identified by Xerox as PS 91130 actually begin with the designation PS 91330.

This is not a situation where a court directs allegedly privileged matter to be submitted for *in camera* inspection so that a determination can be made from the contents as to whether the privilege applies. Here Xerox is seeking to establish circumstances to demonstrate that deposition questions need not be answered because they call for allegedly privileged answers. Furthermore, SCM contends there is simply no reason why Xerox should be permitted to relitigate the point with a late submission that could have been produced before. Without doubting that there is considerable force to both objections, I prefer to rest decision on the unpersuasiveness of the affidavit itself.

The affidavit was executed by Rank counsel and obtained by Xerox counsel for use in litigation. It seems reasonable to assume it was worded with some care, and that the representations go as far toward advancing Xerox's position as the oath would permit. While there is a conclusory reference to "the possiblity of shared exposure to antitrust attack or liability," there is simply no sufficient basis for a finding that Rank and Xerox were jointly interested in the legal advice Xerox, counsel gave during the course of arm's length negotiation between the two entities. The affidavit significantly omits any indication that Rank counsel ever suggested to his client the possibility of shared exposure to antitrust liability. Rank counsel refers to his own assessment that there "might" be a challenge and that a challenge "could" involve Rank. This assessment, he says, was communicated to Xerox representatives, together with his view that there was no antitrust violation.

Of course there need not be a clear demonstration of actual liability before a third party and a client can be considered to have a sufficiently common interest in legal advice. And the prospect of liability need not arise solely in the context of trial preparation. But a client's sharing of its attorney's advice with a third party is not in con-

fidence simply because the third party's lawyer thought that there "might" be a challenge, which "could" involve his client. Unless the interests of the parties are demonstrably common, as when potential defendants discuss grand jury questioning, *Continental Oil Co.* v. *United States*, 330 F.2d 347 (9th Cir. 1964), or intended pleas, *Hunydee* v. *United States*, 355 F.2d 183 (9th Cir. 1965), the risk of shared exposure must at least be sufficiently substantial to have prompted the third party's lawyer to counsel his client regarding the prospective hazard.

The conclusory statements contained in the affidavit do not dispel the view that Xerox wanted to change the arrangement, without any serious concern about potential liability of Rank. As the Xerox president acknowledged at his disposition, the meetings and statements discussed "legal considerations affecting Xerox." McColough Deposition, Tr. 2251-52 (May 1, 1975). What Xerox has failed to demonstrate is that when its personnel discussed legal advice they had received with personnel of Rank, the Xerox personnel had any reasonable basis for assuming that the advice was of such common interest to Rank or sufficiently concerned the risk of Rank's shared exposure to liability as would make the advice privileged from subsequent disclosure. Advice discussed with a negotiating adversary in the absence of circumstances supporting such a reasonable expectation is not entitled to protection.

III.

Xerox requests reconsideration of the ruling requiring it to answer Interrogatory No. 62(a), which requests identification (by inventor, number, and date and country of issue) of each patent ever used in plain paper office copiers and duplicators manufactured or marketed by Xerox at any time. Pre-Trial Ruling No. 17 required Xerox to an-

swer that Interrogatory as to all models that bore a legend either listing the patents used or representing that such a list would be furnished upon request. Citing other language in the Ruling that declined, partly because of undue burden, to order Xerox to formulate claims as to patent coverage for machines that did not bear such a legend, Xerox contends the Court must have intended to require an answer to Interrogatory No. 62(a) only to the extent that opinions as to coverage are already in existence. Xerox is correct in suggesting that the Court did not expect that response to Interrogatory No. 62(a), to the extent allowed, would entail much of a burden. The Court assumed that when Xerox represented to the public that a list of patents would be furnished upon request, there must exist some documents that would have enabled Xerox to respond to such an inquiry with reasonable promptness. It is hard to believe that Xerox would have answered a request by saying, "We have documents that list some patents being used, but it will be an enormous burden for our patent department to complete the analysis necessary to list all the patents being used."

Nevertheless Xerox asserts that in fact the available documents do not list all of the patents used on machines that bore the legend promising to furnish such information. No claim is made that such documents formerly existed but have since been destroyed. Nor has Xerox contended that it lacked the ability to furnish to consumers the list of patents it represented it would supply. It may well be that no single document contains a list of patents used in each machine. However, unless the Xerox representation to the public was misleading, Xerox must have some material in its files from which the requested lists can be assembled.

Xerox's own internal documents submitted to the Court and ordered produced under Pre-Trial Ruling No. 17 re-

veal that this is not the first time Xerox has sought to place obstacles in the way of those who simply ask it to honor the public representation it has made. In January, 1967, a request was made for patents used in three machines. Xerox responded with a list of all patents owned by Xerox Corporation. Undaunted by the overkill, the inquiry was renewed, with the request limited to patents used in a single machine. That letter went unanswered. A renewed request in April evoked a reply in May, which stated: "We did send to you a list of certain of our patents, and I am afraid I cannot tell what additional specific information you need." In June the persevering requester reminded Xerox that his inquiry concerned only the patents covering the Model 914, charitably suggesting that the complete list of all patents had been sent inadvertently. That letter was circulated internally for guidance with the notation "We *do* have a list of 914 patents which we *don't* ordinarily send out." (Emphasis in original). Ultimately wiser heads prevailed, and the January request was complied with on August 1. Two years later a request for patents relating to another machine evoked a different tactic. Though an internal document had identified 14 unexpired patents that "probably" related to the machine, the requester was sent six patents with this explanation: "We are enclosing some typical patents which outline our processes . . . ."

The Court does not expect that Xerox patent personnel will now begin an analysis of every patent and make discrete judgments as to whether or not they read on every machine. Much of the required listing is already reflected in the documents already ordered to be produced. As to many patents, it must be readily ascertainable that they do not apply to any machines. If bona fide doubt exists whether some patents are used in a particular machine, the interrogatory response can forego definitive answers

in favor of an indication of probable coverage. Abuse of this limited leeway will encounter sanctions.

Except to the extent modified in the prior paragraph, the motion to reconsider Pre-Trial Ruling No. 17 is denied. Documents ordered to be produced by that Ruling shall be given to SCM by March 15. Interrogatory responses, and *in camera* submissions required by that Ruling shall be filed by March 31.

Dated at New Haven, Connecticut, this 9 day of March, 1976.

JON O. NEWMAN

Pre-Trial Ruling No. 21.

UNITED STATES DISTRICT COURT

DISTRICT OF CONNECTICUT

CIVIL No. 15,807

SCM CORPORATION

v.

XEROX CORPORATION

Xerox has sought an amendment to Pre-Trial Rulings Nos. 17 and 19 to include the determinations necessary to provide for interlocutory appeal pursuant to 28 U.S.C. § 1292(b) of two rulings contained therein. The first requires Xerox to produce documents containing the opinions of attorneys in its patent department as to the scope of various patents. The second requires Xerox officials to answer deposition questions concerning negotiations between Xerox and the Rank Organisation.

Interlocutory appeals of discovery rulings have been rejected by the Second and other Circuits, even when certification was made under § 1292(b). See *Atlantic City Electrical Co.* v. *General Electric Co.*, 337 F.2d 844 (2d Cir. 1964); *United States* v. *Woodbury*, 263 F.2d 784 (9th Cir. 1959). See also *McSparran* v. *Bethlehem-Cuba Iron Mines Co.*, 26 F.R.D. 619 (E.D. Pa. 1960) (certification denied). Review has been granted where the availability of deposition testimony was thought pertinent to a motion to dismiss, *Garner* v. *Wolfinbarger*, 430 F.2d 1093 (5th Cir. 1970), and where a district judge announced, without precedent, the doctrine that the attorney-client privilege is un-

available to corporations. *Radiant Burners, Inc.* v. *American Gas Association*, 320 F.2d 314 (7th Cir. 1963).

I do not believe the two rulings challenged by Xerox are appropriate for certification for interlocutory review. Neither ruling concerns a matter such that "an immediate appeal from the order may materially advance the ultimate termination of the litigation" as required by § 1292(b). Reversal of either ruling would not eliminate a party, end litigation of a particular claim, nor otherwise spare the litigants any significant aspect of the trial. Despite Xerox's attempt to fragment the first ruling into four issues,[1] it poses the single question of whether an attorney's opinion is privileged when it demonstrably does not reveal confidential communications from the client. While Pre-Trial Rulings Nos. 17 and 19 note some authority for the view that all attorney advice is privileged regardless of whether it reveals client confidences, such views have not been adopted in the Second Circuit, which appears to adhere to the narrower formulation of Judge Wyzanski's in *United States* v. *United Shoe Mach. Corp.*, 89 F. Supp. 357 (D. Mass. 1950), see *Colton* v. *United States*, 306 F.2d 633 (2d Cir. 1962). Differing views outside the circuit have been thought not to satisfy the test of § 1292(b). *Berger* v. *United States*, 170 F. Supp. 795 (S.D.N.Y. 1959).

The second challenged ruling involves no controlling issue of law, but solely a question of whether adequate facts have been presented to satisfy a legal standard not disputed by the parties. Legal advice, if privileged, does not lose protection from disclosure when communicated to those with a sufficient common interest in

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[1] Xerox misapprehends Pre-Trial Ruling No. 19 concerning attorney's advice not communicated to the client. So long as disclosure of that advice would reveal confidential communicat[illegible] as from client, it is privileged, even if contained in a memo to the file. See Pre-Trial Ruling No. 19 at 7-8.

the advice. Xerox has failed to demonstrate that this standard was met in the context of the Xerox-Rank negotiations. When the issue was first submitted for decision, no facts other than the existence of the joint venture supported this claim. After Pre-Trial Ruling No. 17, Xerox submitted an affidavit of Rank counsel, which was found in Pre-Trial Ruling No. 19 to be an insufficient basis for concluding that Rank was jointly interested in whatever legal advice Xerox communicated during the negotiations to alter the Xerox-Rank joint venture. Now Xerox alleges that an adequate showing was "implicit" in a paragraph of the attorney's affidavit. Xerox also discounts the significance of McColough's statement that "legal considerations affecting Xerox" were discussed by pointing out that no one asked McColough at his deposition whether Rank was affected. It is not for this Court to divine what is implicit in an attorney's affidavit, nor to assume what a deponent would say if asked a particular question. Xerox has had ample opportunity to submit affidavits of the Rank attorney, McColough, or anyone else to demonstrate explicitly that the joint interest test was met in the context of the Xerox-Rank negotiations. There has simply been a failure of proof.

This litigation is in its third year, and a time-table for trial preparation and trial will shortly be issued. Interlocutory review at this time would cause a substantial delay which I do not believe is warranted. There is, however, one claim that might justify interlocutory review. This concerns the deletion of a concluding paragraph from the Court of Appeals' opinion in *United States* v. *Silverman*, 430 F.2d 106 (2d Cir. 1970), discussed in Pre-Trial Ruling No. 19. While I do not believe § 1292(b) certification is warranted on my reading of *Silverman* and the deletion, it is of course up to the Court of Appeals to say with finality whether that deletion has greater significance

than I have given it. Xerox is certainly entitled to a brief stay to afford it an opportunity to petition the Court of Appeals for a writ of mandamus, though § 1292(b) certification is denied. See *Harper & Row Publishers, Inc.* v. *Decker*, 423 F.2d 487 (7th Cir. 1970).

Accordingly, the motion to amend Pre-Trial Rulings Nos. 17 and 19 to include certification pursuant to 28 U.S.C. § 1292(b) is denied, those Rulings, insofar as they concern the matters challenged by Xerox in its application for amendment, are stayed until March 26 to permit Xerox to seek a petition for writ of mandamus and a further stay from the Court of Appeals, and, in the event mandamus is denied, the deadlines in Pre-Trial Ruling No. 19, concerning the matters here challenged, are extended by the interval from the date of that Ruling until decision by the Court of Appeals on a petition for writ of mandamus.

Dated at New Haven, Connecticut, this 22nd day of March, 1976.

JON O. NEWMAN
United States District Judge

Pre-Trial Ruling No. 22.

UNITED STATES DISTRICT COURT

DISTRICT OF CONNECTICUT

CIVIL No. 15,807

SCM CORPORATION

v.

XEROX CORPORATION

In order to resolve claims to attorney-client privilege raised during depositions of certain Xerox executives, the Court directed those executives to submit affidavits to the Court for its *in camera* inspection. Pre-Trial Ruling No. 17 at 5, 14, 17. Having examined the affidavits of C. Peter McColough, Sol M. Linowitz, and John H. Dessauer, the Court sustains the claims of McColough and Linowitz, but rules that Dessauer should answer SCM's question whether he ever recommended that Xerox act to prevent another company from becoming a competitor.

Linowitz's affidavit concerns conversations he had with Battelle executives. Linowitz Deposition, Tr. 241 (Oct. 10, 1975). It sufficiently demonstrates the mutual interests of Xerox and Battelle in the topics of discussion so that the conversations may remain privileged as confidential communications concerning legal aspects of matters of joint concern in the affairs of the closely cooperating enterprises.

McColough's affidavit outlines the considerations pertaining to licensing decisions about which SCM endeavored to question him, McColough Deposition, Tr. 1494, 1496-97,

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

Nos. 1060, 1061—September Term, 1975.

(Argued April 13, 1976 Decided April 15, 1976.)

Docket Nos. 76-3017, 76-7131

XEROX CORPORATION,

Defendant-Appellant,

—against—

SCM CORPORATION,

Plaintiff-Appellee.

XEROX CORPORATION,

Petitioner,

—against—

HON. JON O. NEWMAN, Judge of the United States District Court for the District of Connecticut, and SCM CORPORATION,

Respondents.

Before:

CLARK, *Associate Justice.**
MANSFIELD and MULLIGAN, *Circuit Judges.*

Attempted appeal from pretrial discovery orders issued by the United States District Court for the District of

* Supreme Court of the United States, retired, sitting by designation.

Exhibit 5

Connecticut, Jon O. Newman, *Judge*, and petition for a writ of mandamus staying the operation and effect of the orders.

Appeal dismissed for lack of jurisdiction. Petition for writ of mandamus denied.

STANLEY D. ROBINSON, Esq., New York, N.Y. (Milton Handler, Esq., Kaye, Scholer, Fierman, Hays & Handler, New York, N.Y., Kenyon & Kenyon Reilly Carr & Chapin, New York, N.Y., Cummings & Lockwood, Stamford, Conn., John R. Murphy, Esq., Stamford, Conn., of counsel), *for Defendant-Appellant.*

STEPHEN RACKOW KAYE, Esq., New York, N.Y. (Ira B. Brudberg, Esq., David L. Belt, Esq., W. Thomas Fagan, Esq., Richard M. Gelb, Esq., Proskauer Rose Goetz & Mendelsohn, New York, N.Y., Widett, Widett, Slater & Goldman, P.C., Boston, Mass., Jacobs, Jacobs & Grudberg, P.C., New Haven, Conn., of counsel), *for Plaintiff-Appellee.*

PER CURIAM:

In this litigation between two giants of the office copying industry, which was begun in 1973 when SCM Corporation (SCM) brought an action against Xerox Corporation (Xerox) in the District of Connecticut seeking damages for alleged antitrust violations, and declaratory and injunctive relief with respect to certain patent and license agreements, Xerox seeks to appeal from two pretrial discovery orders issued by Judge Jon O. Newman with respect to documents and information claimed to be protected from

disclosure by the attorney-client privilege. In the alternative, Xerox petitions pursuant to 28 U.S.C. §1651 and Rule 21, F.R.A.P., for a writ of mandamus staying the operation and effect of the orders.

In recent years we have repeatedly sought to make clear that in the absence of a certification pursuant to 28 U.S.C. §1292(b) or of a showing of "persistent disregard of the Rules of Civil Procedure," *Will* v. *United States*, 389 U.S. 90, 96 (1967), or of "a manifest abuse of discretion," *Baker* v. *United States Steel Corp.*, 492 F.2d 1074, 1077 (2d Cir. 1974), on the part of the district court, no jurisdictional basis exists for interlocutory review of pretrial discovery orders of the type here presented. See 28 U.S.C. §1291; *International Business Machines Corp.* v. *United States*, 480 F.2d 293 (2d Cir. 1973) (en banc), *cert. denied*, 416 U.S. 979 (1974); *American Express Warehousing, Ltd.* v. *Transamerica Insurance Co.*, 380 F.2d 277 (2d Cir. 1967); *Shattuck (IBM)* v. *Hoegl (Xerox)*, 523 F.2d 509 (2d Cir. 1975).

No such showing is made here and Judge Newman understandably refused to certify his rulings for appeal pursuant to 28 U.S.C. §1292(b). This case does not present legal questions of first impression or of "extraordinary significance," 380 F.2d at 282. Furthermore, the record indicates that the district judge, far from being guilty of usurpation of power, invoked and painstakingly applied settled principles governing the attorney-client privilege to a complicated factual picture. Xerox's attack upon the viability of *Colton* v. *United States*, 306 F.2d 633 (2d Cir. 1962), *cert. denied*, 371 U.S. 951 (1963), which it bases on our later decision in *United States* v. *Silverman*, 430 F.2d 106 (2d Cir. 1970), *modified on rehearing*, 439 F.2d 1198 (1970), *cert. denied*, 402 U.S. 953 (1971), hardly warrants interlocutory review. It is further settled that the exception created by *Cohen* v. *Beneficial Industrial Loan Co.*, 337

U.S. 541 (1949), to the finality requirement cannot be employed to obtain interlocutory review of discovery orders. See *American Express Warehousing, supra*, 380 F.2d at 280; *Shattuck, supra*, 523 F.2d at 516. In view of the applicability of such well-established jurisdictional principles, further explication is unnecessary. "Occidit miseros crambe repetitia magistros," Juvenal, Satires. Sat. vii, l. 154 (Gifford, tr.).

The attempted appeal is dismissed for lack of appellate jurisdiction. The petition for a writ of mandamus is denied.

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